

MAKE OR BUY:  
A QUALITATIVE ANALYSIS OF FOOD AND BEVERAGE PROGRAMMING  
IN FULL SERVICE UPSCALE HOTELS

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## ABSTRACT

The author's goal in this paper was to propose a framework for resolving the “make” versus “buy” dilemma for food and beverage operations in upper upscale, luxury, and boutique hotels. By examining the historic precedence of food and beverage in hotels, the rise of the celebrity chef, and the increasingly visible and culturally relevant role of restaurants, chefs, and dining in the American landscape, the author sought to establish a context in which this decision has become increasingly important.

The decision whether to “make” or “buy” signature restaurant concepts and operations is critical to the success of upscale hotel brands. As hotels have transitioned from purely lodging operations to lifestyle brands, dining has become a key tangible representation of positioning and differentiation (Rossant, 2004).

In the second half of the twentieth century, food and beverage grew into a significant cultural force in America; from the birth of celebrity chefs to the establishment of an entire segment of the media devoted to it. This has had a direct impact on hotels, which have increasingly segmented and differentiated themselves by providing high quality and unique signature restaurants. One of the pioneers was Wolfgang Puck and his relationship with Kimpton Hotels.

This paper seeks to establish what criteria are used to determine whether a hotel creates and operates internally their own restaurant concepts or license or lease their restaurants. The author proposes a framework defined as The 5 Cs (Core Competencies, Competition, Costs, Culture, Co-branding) that can be used as a qualitative framework by which these decisions can be made. The research seeks to determine whether or not this framework is used by today's industry leaders.

The author conducted interviews with key industry experts to understand the methodologies used in resolving the “make” versus “buy” dilemma in some of the industry's

leading organizations. Interviews were conducted with both hotel operators and restaurateurs using an open-ended questionnaire.

Ultimately, the author found that key elements of the 5 Cs are important components of many of these decision makers' processes, but an industry-wide core framework was not prevalent. However, there was qualitative support that the considerations outlined by the 5 Cs are relevant and important to the resolution of the "make" versus "buy" dilemma, and that the proposed framework could provide a baseline framework for the development of a rational analytical model for organizations to make these important decisions.

## BIOGRAPHICAL SKETCH

Elizabeth Blau's hospitality career spans nearly three decades. She is widely credited with being a key player in transforming Las Vegas into a world-class culinary destination. Over the past decade she has continued to work in the hospitality industry through her Las Vegas based consulting firm, Elizabeth Blau & Associates, providing a full range of strategic, creative, and project management services.

Blau's hospitality career began in high school in her hometown of West Hartford, Connecticut working in a local Mexican Irish Cantina. She continued her culinary pursuits as an undergraduate at Georgetown University, working as a garde-manger, line cook, and pastry chef while pursuing a degree in government and international relations. After graduating from Georgetown she worked for five years, in brand management at a major liquor distributor, and in special events at the Plaza hotel. She then attended Cornell University's School of Hotel Administration in pursuit of a master's degree in restaurant marketing. From Ithaca, she went to work for famed restaurateur Sirio Maccioni, opening Osteria Del Circo and Le Cirque 2000 in the Palace hotel. Blau spent one year negotiating the deal to open Le Cirque and Circo at Steve Wynn's \$1.6 billion Bellagio Casino and Resort in Las Vegas, Nevada. Impressed with her abilities, Mr. Wynn personally recruited Blau to fulfill his vision of revolutionizing the food and beverage industry in Las Vegas.

As Vice President of Restaurant Development for Mirage Resorts, Blau brought an extraordinarily talented group of award-winning chefs to Las Vegas, including Todd English, Jean-Georges Vongerichten and Michael Mina. In 2000 MGM Grand acquired Mirage Resorts and Blau became Senior Vice President of Restaurant Development. In this capacity, she continued to develop, integrate and promote new restaurant concepts for the corporation's

many properties.

In 2003, Blau founded Elizabeth Blau & Associates. Blau & Associate's client list includes such industry leaders as: Celebrity Cruises, Destination Hotels and Resorts, Hilton, Marriott International, Park Hyatt, Starwood Capital, Loews Hotels, One and Only Resorts, Montage Resorts, Paragon Gaming, the Ritz Carlton Hotels and Resorts, Trump Casinos, Viceroy Hotels and Resorts, and Wynn Resorts, among many others.

In 2004, Wynn again recruited Blau to join Wynn Las Vegas, a \$2.7 billion mega-resort as Executive Vice President of Restaurant Development and Marketing. Blau worked closely with management to realize Wynn's vision of an unrivaled food and beverage program. The team conceptualized, developed and marketed 22 unique dining, bar, lounge and nightclub establishments. In the process, they assembled an all-star team of "chefs-in-residence," a revolutionary concept that ensured the name on the establishment matched the working chef in the kitchen.

Currently, in addition to helming her consulting firm, Blau maintains partnerships in three successful Las Vegas ventures. She and her husband, Kim Canteenwalla, launched local hot spot Honey Salt in 2012. The couple also partnered with TLC's Cake Boss, Buddy Valastro, to open Buddy V's at the Venetian in 2013. Additionally, Blau's longstanding friendship with chef Kerry Simon resulted in their fifth collaboration together, Simon Restaurant & Lounge, which opened at Palms Place in 2008 with partner George Maloof.

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## **CHAPTER 1**

### **INTRODUCTION**

One of the pivotal issues facing hotel owners and operators in the United States is the challenge of successfully programming profitable food and beverage outlets. Food and beverage is a necessary component of any full service, upscale hotel.<sup>1</sup> However, outstanding food and beverage in terms of dining experience, critical acclaim, quality of food, and profitability, has been the exception rather than the norm at most properties in this segment. While the reputation of hotel food and beverage as a required concession to hungry guests is changing, there is still an enormous opportunity for many hotel operators to utilize food and beverage to enhance their properties. In order to take advantage of this opportunity and to successfully activate food and beverage programming, hotel operators are faced with a fundamental question: “make or buy?” That is, should food and beverage outlets be developed and run internally, or be outsourced to third party operators?

Over the past decade there has been a reemergence of food and beverage outlets as significant demand generators, revenue streams, marketing opportunities and differentiators for upscale, full service hotels. In many markets, food and beverage can be the key communication platform for a property. A successful restaurant also provides increased media opportunities for a hotel due to the amount of attention and coverage given to food and beverage in print, online, and on television. However, all of these benefits are contingent on the key assumptions that the food and beverage is quality and well conceptualized, and that outlets are well-run, offer a defined concept, comfortable ambiance, and desirable experience. Unfortunately, many properties do not offer quality, well-conceptualized, well-run restaurants with a defined concept or desirable experience. This is due to ill-defined or non-existent methodology when considering the programming of food and beverage.

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<sup>1</sup> As defined by the Mobil travel guide, a four or five star hotel must operate a three-meal restaurant.

## **Standard Food and Beverage Programming**

Arriving at the proper operating model can have a significant impact in terms of marketing, brand strength, occupancy, and revenue for an operator. However, not thinking through this process correctly can be detrimental to the entire operation, both in terms of lost opportunity, physical operating costs, and reputation.

Until recently, the status quo for upscale full service hotel food and beverage operations has been internally run restaurants that are programmed to fill a basic necessity for hotel guests to eat breakfast, lunch and/or dinner. These types of restaurants function more as a convenience, and rarely produce any sort of positive effect for a property, let alone profits. This type of restaurant is specifically programmed to be all things to all people, compared to an independent restaurant focused on providing a specific experience to a targeted market. They demand little or no creativity on the part of their management and are able to remain operational based on the built-in demand of hotel guests, usually a “captive” market.

Some operators do pursue more creative or “signature” programming solutions, but these efforts are often ill considered or narrowly focused. Operators that take an instinctual, personal preference-driven, and “gut feel” approach to food and beverage programming typically see minimal success or face operational repercussions. There has been essentially no standard methodology on how to best approach this important aspect of a hotel’s operation. Individual companies and properties have developed unique strategies, some of which have been very successful, although many have not.

## **The Problem**

Through two decades of operational, managerial, and consulting experience, as well as extensive academic, journalistic, and historic research, the author has found that there is little published research on a proven process for making food and beverage programming decisions.

The author has worked with countless operators struggling with the question of whether to make or buy food and beverage programming. Additionally, the author has witnessed the disastrous results of operations that have not taken the time to consider this dilemma, and has often been engaged to resolve these types of crises. These experiences are paramount to both the creation and the content of this thesis. Above all, this thesis seeks to transform firsthand experiences into a rational framework of market and operational analysis, grounded in academic research, that can serve as a tool for operators of hotels to help program food and beverage operations correctly.

There is a lack of a published, well-defined system for approaching this issue. Through a series of conversations with two professors at Cornell University School of Hotel Administration (Professor Tabacchi and Professor Dev), a series of questions were posed. The first question was, “What is the best organization for a hotel, casino, or resorts food and beverage?” This question focuses on the three organizational models, but quickly realizes that due to the infinite amount of operational and external influences on a given property, there is neither a single appropriate nor consistent answer. Inherently, each property must arrive at its own decision. From here the second question posed was, “What is the best way to decide whether to make or buy?” Based in the author’s experience, there were many factors in this answer, and there is very little codification of this process among operators. This posed an issue as it made analysis difficult. Therefore, from this question a third question arose: “What are the factors that must be considered to choose the best form of food and beverage programming?” It was from an examination of this question, a consideration of the historic and social role of restaurants in our society, and an exploration of academic writings, as well as the experiences of the author that led to the decision to determine and define a system by which the essential factors in analyzing and choosing a hotel, casino, or resort’s food and beverage programming options.

There is a need for a rational, standardized, approach to account for the diverse range of elements that influence food and beverage programming. As restaurants continue to evolve as

important cultural and social centers – while at the same time garnering extensive media attention - they can no longer be secondary components to lodging properties.

Ultimately, properties are faced with the question of whether to reimagine their internally operated restaurants to remain competitive, or to seek out third party operators to streamline their food and beverage operations – whether to make or buy. This thesis focuses on this “make or buy” dilemma:

1. Internally developed and run outlets that represent a “make” solution
2. Third party management contracts that represent a “buy” solution

Depending on the needs of a given property, both of these solutions have a place in successful food and beverage programming. The key research question addressed is this: Is there a methodology by which hotel operators can rationally determine the best approach for a given property?

In this thesis, a qualitative and quantitative decision making process is outlined to guide and inform the programming of a hotel’s food and beverage. Additionally, this thesis attempts to define the key factors that best determine the ideal solution to the “make or buy” problem faced by the operator. It will help identify the most important factors influencing the programming of an upscale full service hotel’s food and beverage program. It aims to provide the necessary tools to make this decision rationally, rather than providing a single solution to the dilemma.

## **Research Approach**

The author conducted secondary research through leading industry publications, media coverage, and the Cornell Hotel School’s Nestle Library. A body of work covering transaction cost theory, the academic foundation for questions regarding make or buy, brand alliances, and hospitality leases and contracts were reviewed. A more in-depth discussion of this research will be provided in the following chapters. Having established a baseline understanding of some of the factors that may be influencing operators’ decisions in regards to food and beverage

programming, the author turned to primary research based on numerous case studies of firsthand experience with this issue. This research included reexamination and analysis of projects completed by the author and her consulting firm over the past 15 years, covering a range of situations and results.

After conducting this research, the author focused on the five elements that appeared to have the most direct impact on the ability to rationally determine whether to make or buy -- the 5 Cs: core competencies, competition, costs, culture, and co-branding. To corroborate the validity of this framework the author created an informal survey to be verbally given to industry leaders, including chefs, restaurateurs, hotel operators, hotel managers, and hotel owners. These conversations, combined with the secondary research and primary experiences of the author, provided the foundation for supporting this framework.

### **Framework: The 5 Cs**

The main framework for the decision to “make” or “buy” discovered in the literature is referred to as the “5 Cs:”

- *Core competencies*
- *Competition*
- *Costs*
- *Culture*
- *Co-branding opportunities*

According to the literature, by considering each of these factors, an organization can make an informed decision that will have the best possible impact on its performance. Yet, extensive professional experiences of the author find that there may be more to the decision than the 5 Cs. The purpose of this study is to see if in fact there is more to the “make” or “buy” decision than the original 5 Cs.

## **Defining Success**

A restaurant's success within the context of a property can mean many things, and may not refer specifically to its profitability. Success is generally a parameter defined by either senior management or ownership, and addresses the achievement of stated goals. These goals can be financial, such as earning a specific percentage in profit. They can also be marketing related, providing prestige, visibility, and media coverage for the property. Sometimes management or ownership does not clearly establish or articulate goals or parameters by which to measure success, which can create issues as different parties struggle to agree on what it means. In terms of this paper, success will be defined as a restaurant that does not lose money, helps to differentiate a property, and creates foot traffic independent of hotel guests.

## **Historical Precedence**

This section focuses on the history of contemporary American dining and the rise of the celebrity chef. What began as a small subculture during the 1960s and 1970s has become a multibillion-dollar industry and influential aspect of American culture. The development of contemporary American dining and the influence of the independent restaurant was in many ways one of the handicaps for hotels to take advantage of these shifts. As the chefs who influenced this revolution have evolved into brands, hotels are again reaching out to them to provide the “buy” solution in the “make or buy” dilemma.

In order to understand the value of quality food and beverage in a hotel, resort, or casino environment, it is necessary to understand the history and development of the hotel restaurant in twentieth and twenty-first century America. Over the past thirty years we have seen a remarkable rise in the importance and appreciation of fine cuisine throughout the United States. While much of this has taken place in major metropolitan areas, and even more so on the coasts, the seismic shift in how we think about food, restaurants, and chefs has had a profound impact on American life. When considering how to approach a food and beverage outlet, it is important to understand

this growing and continued appreciation of restaurants and the role they can play in our lives and in the life of a property.

**Escoffier and the Foundation of the Modern Restaurant (1900 – 1940).** The modern restaurant was born in the hotel. Georges-Auguste Escoffier, founder and patron saint of the classic French culinary canon, inventor of the brigade system of organizing kitchen staff,<sup>2</sup> and godfather of the modern commercial kitchen was the world's first famous restaurant chef, and he made his career in hotels. While his journey began at Le Petit Moulin Rouge, a restaurant and nightclub in Paris, the height of his fame came through his partnership with Swiss hotelier César Ritz, “the hotelier of kings and king of hoteliers,” whom he met while working at the Grand Hotel in Monte Carlo in the 1880s (Kamp, 2006; Rossant, 2004). Together the two of them were the opening operations and culinary team for The Savoy in London, one of the premier hotels of its time. It was at The Savoy that Escoffier pioneered *service à la Russe*<sup>3</sup> and *à la carte*<sup>4</sup> dining, establishing the important role of the waiter in restaurant services (Kamp, 2006). During their career, it was the team of Escoffier and Ritz that differentiated their hotels, which ultimately included the Hotel Ritz in Paris and The Carlton in London (Rossant, 2004).

It is important to recognize that the birth of the modern restaurant took place in the world of hotels and that arguably the most important and famous chef of the 19<sup>th</sup> and 20<sup>th</sup> centuries was the “head of restaurant services” at these hotels (Kamp, 2006). Escoffier was not only the founder of the modern restaurant kitchen, he was also the first celebrity chef, and his restaurants

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<sup>2</sup> The brigade system is the organizational hierarchy common in restaurants and hotels in much of the world. Based around military organization, it has an executive management structure, headed by the Chef and supported by his *chef de cuisine* and *sous chefs*. Below the chefs is a large team of *commis* and cooks, each with a focused specialty and seniority. Typically, a young cook would begin as an apprentice, the lowest position, and over the course of a career work their way up. While this is less the case today, the organizational structure and hierarchy established by Escoffier is still very visible in many kitchens.

<sup>3</sup> *Service à la Russe* is the service style in which sequential courses are brought to the table, as opposed to all food being delivered at once or set out in a buffet. The popularity of courses in European dining can be linked to Escoffier's support of this dining style.

<sup>4</sup> *À la carte* dining refers to individually priced items, dishes, and sides.



were in hotels. So it is apparent that the history of the contemporary restaurant is inherently intertwined with hotels and that it is logical that the two should cohabitate. In the years following the heyday of Ritz and Escoffier, the continent was ravaged by two World Wars, and the opulent era of hotel fine dining went on hiatus. But the precedent was set, and it would emerge again as the century progressed.

**Restaurant Dining in Mid-Century America (1940 – 1969).** By the middle of the 20th century, American dining was in a declining state. The rise of the supermarket and an emphasis on economy and efficiency, embodied by the introduction of packaged and frozen foods in the post war years had divorced us of our locally oriented, agrarian past (Trager, 1994). By 1956, the overwhelming majority of American food was being purchased from supermarkets, a still relatively new invention, and only 10% was being purchased from small, independent butchers, bakers, and grocers (Kamp, 2006). McDonald's and fast food chains were in the process of transitioning from novel concepts to juggernauts of dining - reinventing the way Americans saw the dining experience. Convenience was rapidly becoming king. For the mid-20th century, fine dining in American restaurants meant French dining. Restaurants such as Henri Soulé's New York City landmark, Le Pavillon, which opened in 1941 after Soulé came to New York for the 1939 World's Fair, were seen as the pinnacle of dining.

However, one of the first food critics in a major US newspaper, Craig Claiborne (1959), began his pivotal *New York Times* article "Elegance of Cuisine is on Wane in U.S." by stating that "two time honored traditions of the good life – great cuisine in the French tradition and elegant table service – are passing from the American scene." Claiborne went on to lament the loss of well-trained career waiters, *à la minute*<sup>5</sup> prepared food, the laziness of the younger generation, and a lack of properly trained and ambitious chefs. Notably, Claiborne mentions

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<sup>5</sup> *À la minute* refers to a style of cooking in which a dish and the accompanying sauce is prepared, often in the same pan, and is made to order instead of in advance.

hotels and their dining rooms as the previous model for “elegant” dining in pre-war, pre-Depression America, saying, “Reputations of many hotels such as the Ritz, the Lafayette and the Brevoort were built on cuisine and service.” The Claiborne article marks an important moment in the timeline of the hotel restaurant in America. In many ways, it marks the end of the first era of hotel restaurants in this country. Referring to the *New York Times* article, Kamp (2006) wrote that “Claiborne made a couple of valid points that still hold true today: that hotel food, even in luxury hotels, is unaccountably bad, and that America is severely lacking in trained, multiskilled [sic] waiters who are happy to be career waiters.” In the eight years since Kamp wrote these words, we have seen this begin to change.

In the 40 years since the Claiborne article was published, there arose two generations of chefs and restaurateurs who would first redefine the restaurant and food in America. We went through a culinary revolution that began in forward thinking, independent restaurants, and has now made its way back into hotels, where the movement began over 100 years ago.

Around the time that Claiborne published his obituary for grand and elegant hotel dining in America, there were a group of individuals laying the foundation for the modern American restaurant group. For the first half of the 20th century, the restaurant proprietor was an individual who was necessary for the daily operations of the restaurant. His presence in front or back of house was regular and permanent, and if he needed a day off, the restaurant closed. Restaurant Associates (RA) changed this, and it began with a man named Joe Baum.

Joe Baum was initially hired to run RA’s restaurant at the Newark Airport, the Newarker. A graduate of Cornell University’s School of Hotel Administration, son of a hotelier, and a very intelligent man, Baum was the very first of a new type of creative, educated, and business-oriented restaurant operator (Mariani & Von Bidder, 1994). Baum, along with several other individuals including RA president Jerry Brody and Swiss chef Albert Stöckli, set out to reinvent dining in America. They introduced New York diners to the concept of dining as entertainment, adding excitement and theater to the experience, as well as focusing on new and improved food

quality. Additionally, Baum hired James Beard as a consultant or “hired palate” in the 1950s for some of their themed restaurants. His first job was in the Hotel Lexington working on a tiki restaurant capitalizing on the Trader Vic’s craze, another hotel restaurant. Ahead of its time, this relationship between RA and Beard was one of the first examples in 20th century America of an important culinary character being brought in to help develop signature restaurants for a hotel (Kamp, 2006). Baum and RA are most renowned for creating the Four Seasons restaurant in New York City; an institution in American dining that is still operating to this day, not their work creating tropical themed bars for hotels.

Opened in 1959, The Four Seasons marked an important development in contemporary American dining. One of the first restaurants to specializing in lighter cuisine featuring locally sourced ingredients, as well as one of the first restaurants to feature California wines, it also became an important social destination and one of the first dining “scenes” in America. Along with other New York City restaurants such as La Côte Basque, Lutèce, 21 Club, and The Rainbow Room, The Four Seasons helped to define fine dining in America in the 1950s and 1960s. However, it was the multi-unit, high-end, entertainment and “scene” driven approach of RA that were the important precursors to the restaurant empires of the late 20th century and early 21st century.

**California and the Rise of the New American Cuisine (1970 – 1982).** The 1960s saw the expansion of the countercultural movement into popular culture, as well as into the way we eat. Opened in 1971, Chez Panisse was founded by a group of former Berkeley activists, and was rooted in the idea that our food and our approach to our food, could also be revolutionary (Kamp, 2006). In a quiet neighborhood outside San Francisco, Alice Waters began changing the way restaurants in America operated, both from a culinary perspective and a social perspective. In the early 21st century, she became an advisor to the President of the United States and a powerful

voice in bringing attention to the need to provide healthy and quality food to future generations (Wellner, 2009).

While Waters has never built a restaurant empire nor been particularly associated with hotel dining, it was her early advocacy, along with that of many others, that laid the cultural groundwork for the idea that not only does food matter, but also a restaurant can represent and embody your beliefs. It is by a lengthy extension of this revolutionary doctrine that we can now use restaurants to appeal to target markets and demographics in hotels. A hotel's food and beverage outlet serves as a tangible and consumable manifestation of its beliefs and its position. Additionally, it was the work of Waters and her compatriots, among others, who gave diners the awareness and knowledge to use food as a statement. While it is rarely, if ever, anything nearly as political, overt, or intentional as Water's early foray into this concept, it is maintained as an important and defining element of American dining. Water's early work was followed by a series of American chefs who were less interested in making a political statement, but more interested in making their own food, and in doing so, giving the country its own food. Starting in the early 1980s, the United States began its food revolution in earnest. Quality restaurants became agents of gentrification, as did farmers markets and gourmet shops (Kamp, 2006).

While Waters was starting a food revolution in Northern California, an important development in hotel dining was taking place in New York. In 1974, former *maître d'hôtel* of the famed Colony Club in New York City, Sirio Maccioni, along with several of his other former Colony colleagues, opened an ambitious restaurant in the Mayfair Hotel on Broadway called Le Cirque. A French restaurant run by an Italian, it was built to help boost the standing and popularity of the hotel in which it was housed (Greene, 1977). Over the next thirty years, Le Cirque would become an iconic restaurant, launching the careers of many chefs who would define the new American restaurant, as well as the new American cuisine, including: David Bouley, Daniel Boulud, Alex Stratta, Bill Telepan, Jacques Torres, Geoffrey Zakarian, Alain Allegretti, and Rick Moonen (Collins, 2009).

As the 1970s came to a close, America's dining culture was in flux, and the foundations for the coming culinary revolution were being laid. While urban fine dining was still centered around classical French cuisine, there was a growing interest in establishing a new American cuisine. The current president of the Culinary Institute of America, Tim Ryan, recently referred to this time as "*the* revolution" in American dining. Ryan pointed to chefs such as Jeremiah Tower, Jasper White and Lydia Shire, Jonathan Waxman, Paul Prudhomme, Larry Forgione, and Wolfgang Puck, who were utilizing local and seasonal ingredients, lighter preparations, and traditional American regional techniques in bring this about (T. Ryan, personal communication, April 12, 2012). This was an important period because it marked the beginning of the emergence of the chef as a brand and an entity in American dining. While many of the chefs who would define American cuisine began their careers in hotels in the 1960s and 1970s, they would establish themselves in independent restaurants over the next twenty years. It was through working in independent restaurants, often identified by their chef as a personality and creative force, that the chef-brand began to emerge. Part of the development of this concept was new culinary competencies associated with individuals or small groups, based on unique and proprietary techniques and flavor profiles, rather than the ability to recreate Escoffier's canon upon request. Additionally, these culinary competencies were enhanced and further defined by a new culture of regionalism, specialty, seasonality, creativity and individuality in the upper echelons of American dining. Ultimately, the expansion of the American culinary palette, along with the introduction of well-defined and chef driven concepts, and the recognition of the chef as a creative entity is what enabled, as well as forced hotels to reconsider their food and beverage offerings as a source of competitive differentiation and revenue generation. However, before this could happen, American dining had a long way to go.

The late 1970s saw another important moment in the progression of chef driven hotel dining in America. In 1979, chef Jean-Louis Palladin opened his eponymous restaurant in the

Watergate Hotel in Washington DC (Trager, 1994). It was small at 55 seats, and while the cuisine was still mainly French, it had a decidedly American regional twist. Palladin was the star of the restaurant, as the youngest chef at the time to ever receive two Michelin stars and in turn, the restaurant was a star of the ambitious complex.

**Celebrity Chefs (1983 – 1998).** The 1980s saw the initial maturation and recognition of the New American cuisine, as well as the birth of the “celebrity chef.” While the 1970s may have laid the foundation for the transformation of America’s culinary landscape, it was the chefs of the 1980s and 1990s who would go on to build the empires that would have such a profound impact on dining over the next twenty years. As Rossant (2004) writes in her book, *Super Chefs*, “the people who made the leap between 1980 and 2000 from owning their first restaurant to forming an empire have been extraordinary leaders indeed. They are a phenomena, and this change in cookery has been nothing less than phenomenal” (Rossant, 2004, pg. 3).

Many point to the 1983 American Institute of Wine and Food dinner at the Stanford Court Hotel in San Francisco as a pivotal moment in the recognition of the new American cuisine (Kamp, 2006). Organized by James Beard for a foundation run by Julia Child, this event featured some of the biggest chefs in America at the time, including Alice Waters, Wolfgang Puck, Paul Prudhomme, Jonathan Waxman, Michael McCarty, Mark Peel, Mark Miller, and Bradley Ogden. In the decades since this dinner, each of these chefs has directly impacted the tastes and direction of American dining. Shortly after this incredible meeting of talent, the notion of the celebrity chef emerged, forever changing the way we thought about food, restaurants, and chefs in America.

In 1985, the *Los Angeles Times*’ restaurant editor Ruth Reichl wrote about a benefit for Meals on Wheels, “Chefs who were asked to give to charity used to send a check, a recipe, or a dish. Now, they send themselves. These days it is not the food they cook, the celebrities they attract, but it is the chefs who are the biggest draw.” In the same article she coined the phrase

“celebrity chef,” saying, “They roll into town like rock stars, roadies in their wake. They stay in the best hotels, are wined and dined in the finest restaurants, and when show time finally comes, they are interviewed, photographed, and besieged by autograph hunters. They are The Celebrity Chefs.” (Reichl, 1985).

Heading the celebrity chef movement was an energetic young Austrian by the name of Wolfgang Puck. Puck was playing host to the Meals on Wheels event that Reichl was covering when she created the phrase celebrity chef. Based in Los Angeles, his restaurant Spago had become one of the highest grossing independent restaurants in the country, averaging \$6 million in annual sales by 1990 (Trager, 1994). Puck had initially gained popularity as the chef of Ma Maison in Los Angeles during the late 1970s (Rossant, 2004). When he decided to open his own restaurant, something interesting happened -- his clients followed and a star was born. In 1981, the owner of Ma Maison, Patrick Terrail said of Puck, “Wolfgang Puck is the chef to the stars and a star of the chefs” (Reichl, 1989). Perhaps because of his Hollywood beginnings, Puck would become instrumental in the development of the celebrity chef as a piece of the value proposition for hotels and casinos, creating a company that had a core competency in offering high end, approachable and well-branded restaurant concepts that could easily be identified by their association with his chef-brand.

Wolfgang Puck was integral in the new breed of celebrity chefs entering both hotels and casinos. Two deals in particular laid the groundwork for the emergence of food and beverage as an integral strategic aspect of hotels.

The first came in 1989 as Puck sought to open Postrio in San Francisco. Bill Kimpton, founder and chairman of the Kimpton Group, approached Puck to open the restaurant in the Prescott Hotel (Rossant, 2004). Bill Kimpton and his group [along with Ian Schrager at Morgan’s Hotels] were early pioneers in using food and beverage as a key differentiator in the hotel segment. Many point to Kimpton as starting the trend of hotels adding celebrity chef-run restaurants when he hired Masataka Kobayashi to open Masa’s in his hotels (Rossant, 2004). The

deal that Kimpton and Puck negotiated for Postrio set a new bar for restaurant contracts in hotels. Prior to the Postrio deal, chefs who did lend their names to hotel restaurants usually did so purely as a consultant -- allowing their name to be put on the menu, but rarely spending any time at the restaurant after its opening (Kamp, 2006). As Tom La Tour, former president and CEO of Kimpton, said in 2003 “all the deals are different, but Postrio was trailblazing, with a small fee and a piece of the upside (for Puck)... If it were successful, he would get a piece of the action, and if the restaurant were sold he would get a piece of the action” (Rossant, 2004, p. 17). This deal represented a new level of financial incentive and involvement for a restaurateur or chef in a hotel environment.

The second important deal Puck made was in Las Vegas. Opened in the Forum Shops at Caesars Palace in 1992, Spago Las Vegas was the first major celebrity chef restaurant to enter the city (Michaelides, 2005). Over the next two decades, celebrity chefs would come to dominate the culinary landscape and the identity of Las Vegas (J. Lapin, personal communication, March 24, 2012). Puck’s foray into Las Vegas was the product of some lucky circumstances and the fact the chef was looking for capital to complete his Malibu restaurant, Granita. A long time fight fan, Puck had been going to Vegas for years, and was always underwhelmed by the restaurant offerings (Kamp, 2006). In need of \$500,000 to finish Granita, he was receptive to the Forum Shop development team’s interest in having him open a restaurant in their new shopping center, and negotiated a deal that let him finish his Malibu project and subsequently usher in a new era of celebrity chefs in Las Vegas (Kamp, 2006). Shortly after Spago opened, MGM continued to expand its roster of celebrity chefs with restaurants from Mark Miller and Emeril Lagasse, a trend that continues to this day (Kamp, 2006).

While Wolfgang Puck is in many ways the poster child of the celebrity chef phenomenon, the 1990s saw an explosion of this new breed of restaurateur, chef, and personality. Calling the celebrity chef a “phenomenon of the ‘80s,” Reichl (1989) proposed that American attitudes towards eating had changed and that “good food is no longer a delightful surprise – it is



simply what people expect to be served when they go out to eat.” What Reichl did not anticipate was that a mere five years later, the celebrity chef phenomenon would explode to a previously unimaginable scale with the introduction of the Food Network. The advent of television brought the new breed of American chef out of their restaurants, out of their kitchens, and into the home. What the charity circuit had done for them in terms of exposure during the 1980s was now being replicated hundreds of thousands of times over (Buford, 2006). Additionally, restaurants were becoming hip focal points of urban life again. As Tom Colicchio says in Kamp’s *The United States of Arugula* (2006), “I think chefs and restaurants became what they are today because when people finally woke up from... the eighties, they had to find another form of entertainment. The club scene was dying out, and restaurants became the new entertainment.”

Fueled by a combination of new technologies, increased media coverage, television appearances and a new willingness of investors to back chefs, the 1990s saw the culmination of the previous 25 years of progress for the American chef (Rossant, 2004). With established players such as Wolfgang Puck expanding their empires, a new generation of chefs including Thomas Keller, Tom Colicchio, Mario Batali, Todd English, Michael Mina, Charlie Palmer, and Daniel Boulud, among many others, began to assemble empires. These chefs had distinct personalities, styles, and stories -- all key elements in defining their respective brands. They had the attention of an entire generation of Americans who had grown up with an improved palate and appreciation for food, along with an insatiable appetite willing to place them on pedestals, visit their restaurants and buy their products. Fine dining and good dining had long since expanded across ethnic boundaries with the help of chefs such as Rick Bayless and Nobu Matsuhisa introducing to diners authentic Mexican and Japanese cuisines, respectively. Restaurateurs such as Drew Nieporent, Jeffrey Chodorow, Richard Melman, and Danny Meyer were building new types of restaurant groups with multiple concepts, star chefs, and loyal followings. Continuing in the tradition established by RA forty years earlier, dining continued to become a viable entertainment option for many Americans. Restaurants became important

cultural and social epicenters, and their chefs began emerging as celebrities. Furthermore, by the end of the 20th century, nearly every major chef in New York, Los Angeles, or the Bay Area had multiple restaurants, an outlet in Las Vegas, and a retail offering such as a spice rub, line of pots and pans, or branded frozen food line (Kamp, 2006).

The establishment in the second half of the 20th century of an American culinary identity, combined with an accepting and interested dining public, and the increased emergence of chefs as personalities and ultimately as brands, are integral to understanding the theory outlined in this thesis. In considering food and beverage operations, a hotel, resort, or casino is faced with an opportunity to create a value adding, differentiating, revenue-generating outlet that will provide a competitive advantage for the property. Had America stagnated in the world that Craig Claiborne lamented in his 1959 *Times* piece, and had the celebrity chef or the New American cuisine never emerged, this opportunity may not exist for operators. Additionally, if food and dining had not become such an important component of the American cultural and entertainment landscape, especially in urban areas, there may not be a need for hotels to focus on food and beverage. As Clark Wolf says in Kamp's book, "'if... people in Vegas are eating at Spago or Nobu instead from a steam-tray buffet, doesn't that mean that we' – by which he means the children of the food revolution – 'have won?'" (Kamp, 2006, p. 343). It certainly means that there is an established demand in the market for well-executed, high quality, thoughtfully conceptualized food and beverage programming, as well as an understanding and appreciation of the chef.

**Strategic Alliances and Chef-Brands (1997 – Present).** The demand, as well as the expectation of quality food and beverage that was developed in America throughout the 20th century began to find its way into the lodging industry en force around the turn of the millennium. As the Food Network continued to gain popularity, beaming once regional chefs into millions of homes, hotel developers began looking to improve the quality of food and

beverage programming. Perhaps one of the best and most notorious examples of this was the wave of celebrity chefs, at this point chef-brands, and strategic alliances that began descending on Las Vegas, NV.

Not necessarily known for being on the cutting edge of culinary trends, Las Vegas is an apt and excellent metaphor for the evolution in tastes of America at any given time. Easily accessible from almost any major US city, it welcomes almost 40 million visitors annually.<sup>6</sup> The majority of these visitors are in town to indulge in gaming, entertainment, and dining, and Las Vegas casino and hotel operators are intent on providing the public with what they want. In 1998, casino impresario Steve Wynn had the vision to reinvent dining in Las Vegas with the construction of his \$1.6 billion Bellagio Casino and Resort. In order to execute his vision, the team at Mirage created a portfolio of celebrity chefs and famed restaurateurs that at the time was unparalleled anywhere in the world. Essential to their approach was the belief that quality dining could be a key demand generator and differentiator. Essential to their success was recognizing not only who can deliver the food, but also recognizing which chefs could successfully open multiple restaurants by virtue of strong organizational skills and corporate structure (Liddle, 1999). This model continues to dictate the programming of the upper echelons of Las Vegas hotels and casinos to this day.

The success of the Mirage's approach to food and beverage programming at the Bellagio was continued after the company was purchased by MGM. Again, the MGM team continued to focus on food and beverage as key competitive strategy, continually utilizing established and recognizable chefs and restaurateurs to not only communicate an enhanced quality on the property, but to draw in guests (Michaelides, 2005). Prior to this approach, you had to seek out the home cities of many of these chefs, and arrange reservations in what were often very small restaurants. However, with the arrival of the celebrity chef and chef-brands in Las Vegas, their food became approachable, achievable, and accessible (Richman, 2006). To many, the success of

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<sup>6</sup> The Las Vegas Convention and Visitors Authority

these experiments indicated the mass acceptance of fine dining as a piece of the American cultural landscape, and was the pivotal point leading to the hospitality industry re-examining its relationship with food and beverage. As the 2000s continued, the economic crisis of 2008 forced operators to reconsider all of their revenue streams and seek opportunities to stand out in an increasingly competitive market.

Additionally, as the 2000s advanced, major hotel development projects began to regularly feature food and beverage programming as defining features and key differentiators. One of the most impressive examples of this was the Related Group's Time Warner Center in New York City. Built in 2006, the 2.8 million square foot building boasted a collection of Michelin starred restaurateurs and chefs reminiscent of the collections of Las Vegas earlier in the decade. Chefs Thomas Keller, Masayoshi Takayami, Jean-Georges, Gray Kunz, and Marc Murphy, as well as bar and nightclub operator Rande Gerber all contributed to the positioning of this remarkable project ([www.theshopsatcolumbuscircle.com](http://www.theshopsatcolumbuscircle.com)). The fact that this collection of food and beverage was the focus of media attention and continues to be a dining destination in one of the most competitive dining cities in the country is an excellent example of the importance of the chef-brand and food and beverage in the market.

This trend continues to manifest itself in all sorts of areas of hospitality. In the late 2000s, as the New York Yankees and the New York Mets built new stadiums, they both looked to food and beverage programming as key differentiators. Considerable media attention focused not only on the improved quality of the food -- but also the names behind the food was key to the marketing strategy and positioning of the projects. This strategy is being used again as Madison Square Garden undergoes a multimillion dollar renovation. These are just a few of the larger scale examples of the utilization of the power of the chef-brands in commercial development, but are great indications of the prevalence of this strategy. They are also fairly recent examples executed by corporations with vast resources available to analyze and advise on these strategies.

The shift in the quality and importance of dining in America, as well as the development of the new American cuisine and the rise of the celebrity chef, have created a significant economy and whole new set of brands within the market. The development of these brands stimulated the increased importance of dining as a cultural and economic force.

With this overview of the importance of food and beverage complete, it is now important to examine how the make or buy decision has been investigated in the past.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **Overview**

The following section of the literature review provides an academic foundation for the proposed framework of the 5 Cs. In conjunction with the historical context outlined previously, this section seeks to provide a complete picture of the established theories and works that are relevant to the proposed framework. The organic development of dining culture in America, in conjunction with the typically focused scope of academic articles regarding hospitality, has resulted in very little in the way of established precedents for the proposed framework of the 5 Cs. However, there are numerous relevant articles and principles that laid the foundation for this thesis. This section will explore the various methods and approaches that provide the groundwork for the establishment of the 5 Cs as a viable framework. This section focuses on branding and co-branding literature, restaurant strategy and alliances literature, transaction cost analysis literature, and lease structure literature, among others. It is the result of extensive online research, database searches, and searches of the Nestle Library at the Cornell School of Administration.

In attempting to develop an interdisciplinary and multifaceted approach in resolving the dilemma of whether to make or buy a hotel's food and beverage programming, it became clear there is not a specific area of study that relates to this topic. Reich (1993) proposed that "applying relevant theories and principles from related fields," is the "quickest and certainly the most efficient means of expanding the body of hospitality knowledge." Additionally, Reich (1993) suggests the application of economic principles as key management tools in the field of hospitality, and establishes an academic precedence for the author's proposed framework by expanding the application of economic and analytical principles into the field of hospitality. This article was the catalyst for the development of the main contribution of this thesis.

## **Transaction Cost Economics (TCE)**

The initial academic principles necessary to consider in the exploration of the decision to “make or buy” involve transaction cost economics, or TCE. Williamson (1981, 2007) provided an understanding for the basic principles concerned with this approach. Reich (1993) provides an important link between Williamson’s writings and the hospitality industry, suggesting that an interdisciplinary approach to hospitality management lends itself to the inclusion of economic theories and principles, such as Williamson’s TCE, which is itself a hybrid of economics, law, and organizational theory, although mainly economics.

TCE focuses on the transaction as an integral unit of assessment in understanding the economics of the efficiency of a given organization. The transaction can be viewed as the basic unit of economic analysis, and in the TCE context, a transaction refers to the “transfer of goods or a service between technologically separate units” (Williamson, 1981). Furthermore, “the analysis of transactions focuses on achieving efficiency in their administration” (Weber & Walker, 1984). That is, that a firm must look at its transactions and examine whether the cost of executing them exceeds the cost of outsourcing them. It is inefficient to execute a transaction at a higher cost than necessary. When examining these efficiencies a firm must look at the uncertainty associated with executing a given transaction and the uniqueness of the assets associated with the goods or service transacted (Weber & Walker, 1984). This uniqueness or asset specificity can arise in three ways: site specificity, physical specificity, or human asset specificity that arises from learning by doing (Williamson, 1981). The proposed existence of asset specificity ties directly to the restaurant, which is a specific asset either able to be produced within the boundaries of a hotel organization or not, thus prompting the “make or buy” dilemma.

In analyzing the efficiency of whether to make or buy a specific asset, Williamson (1981) outlined a theory of efficient boundaries. By this theory, Williamson (1981) provides a simplified model in which there are three distinct production stages: core production stages,

component supply, and distribution. He also suggests that raw materials are distinct and exist in the market, outside of the production stages, and that at each stage a physical transformation takes place wherein components are joined into the “main frame”. These three stages create a vertically integrated cycle of production that can represent a firm, where the efficient boundary represents the core as well as any additional stages that can be addressed internally and remain efficient (Williamson, 1981). This model provides a framework by which an individual can analyze the TCE model and understand at which point it becomes logical to outsource a particular component of the production cycle, when the question of whether to “make or buy” is introduced (Walker & Weber, 1984). Additionally, in considering this question, Williamson (1981) proposes the decision is influenced by opportunism that is limited by rationality, uncertainty and complexity, and the impact of changing information (Chathoth & Olsen, 2003). The efficient boundaries of a hotel operator can be determined through the analysis of their strength as well as their application in the “make or buy” scenario. Since TCE, when applied to “make or buy,” dictates that the understanding of the efficient boundaries is necessary for an informed decision regarding which approach to pursue in resolving this dilemma, the efficient boundary theory is directly related to the framework outlined in this paper.

Later work by Williamson (2007) provides an important outline for the understanding of TCE as an interdisciplinary approach that considers law, through contractual negotiations and their implications and costs, organizational theory, and economics. This framework was further adapted by Walker and Weber (1984) in specific reference to the issue of “make or buy.” Walker and Weber (1984) expanded on the efficient boundary theory proposed by Williamson and examines the issues regarding “make or buy” through a series of case studies, specifically focusing on the production of automobile parts. In their discussion of this issue the authors outline the importance of examining transaction costs in conjunction with and in comparison to production costs, which are more easily measured, and their impact on the decision making process more directly quantifiable. To this extent, the authors write, “production costs are likely



to be part of a formal process for make-or-buy decisions, whereas transaction costs may be included in informal protocols that reflect the differentiation among goals and information associated with each of the functions involved in the decision.” They go on to propose that, “although the formal protocol may be relatively easy to obtain, acquiring a reliable description of the informal decision-making process over a number of decisions is a formidable task” (Walker & Weber, 1984). Subsequently, the authors constructed a model which looked at a more general view and relied on group dynamics to test their hypothesis.

For the purposes of this thesis, TCE and its application to contracts as well as production provide a valuable framework in which to couch the examined question of whether to make or to buy (Williamson, 2007). Additionally, Williamson’s interdisciplinary approach, and recognition of the complex and multifaceted factors influencing these decisions, as well as the establishment of efficient boundaries, serves as a foundation for this thesis’s multidisciplinary framework in the context of restaurant operations within a hotel, casino, or resort. The work of Walker and Weber (1984) provides a precedent for the difficulty in extrapolating explicit transaction costs within the production framework, and points to the utility of a general model in an analytical capacity, while still outlining the limitations of this approach. Ultimately, these papers provide an academic context for the methodology and genesis of this paper, but not necessarily a solution to resolving the dilemma of “make or buy,” especially in a hospitality setting. While Reich (1993) does provide a rationale for applying the Williamson model to hospitality, the author was unable to find any relevant articles directly addressing the question of food and beverage programming.

### **Strategic Alliances**

Beyond TCE, an important body of academic work relevant to the author’s chosen topic is that of strategic alliances, collaboration, and co-branding, specifically between restaurants and hotels. Strate and Rappole (1997) provide an important precedent for the discussion of this field. Their article outlines the historic issue that is core to the framework developed in this thesis: in

the past, restaurants have been relegated to a secondary operation within the hotel environment. The article goes on to provide a valuable framework for considering the integration of food and beverage services into hotels. It outlines the need to consider customers needs and expectations, the alignment of concepts with these needs and expectations, the potential of a brand to improve bottom line performance, and the potential of a brand to improve competitive advantage. These principles all contribute to the importance of the Cs of core competency, co-branding, and competition.

Through examining these aspects of an organization and strategic alliances, an important precedent for the value of branded and strategic food and beverage offerings for lodging operators is established: “The correct match between a restaurant company and a hotel can help to reposition a hotel, increase occupancy, and increase F&B profit” (Strate & Rappole, 1997). This is an important foundation when later considering the role of cost. Furthermore, these collaborative alliances are driven by a desire of a firm to minimize risk and exposure and increase long-term returns. As hotels recognize that it may not be able to create a competitively superior asset, or restaurant, and that attempting to do so themselves may be an unnecessary risk, they seek out feasible alliances (Chathoth & Olsen, 2003).

The need to align a hotel’s corporate culture with a restaurant group’s corporate culture and to ensure that the two have similar business goals and operational understandings is integral to the success of a partnership. Kanter (2000) proposes that there are three components these types of relationships should address: self-analysis, chemistry, and compatibility. Kanter (2000) suggests that fundamental to the success of partnerships is “when partners know themselves and their industry, when they have assessed changing industry conditions and decided to seek and alliance.” This relates directly to both core competencies and co-branding, as they rely on the ability of an operator to recognize their skill set, the market demands, and their potential need, as well as the benefit of an alliance.

Boo and Mattila (2002) provide a valuable context for pursuing the “buy” scenario. Citing a fundamental need to address a desired position and target customer within a market, “the most significant benefit of brand alliances is the ability to penetrate new markets and to supplement each other’s customer base” (Boo & Mattila,2002). Properly considered food and beverage can create a distinct competitive advantage for an operator or property and can be a tool for attracting a given demographic or target customer. The work of Strate and Rappole (1997) also sets a published precedent for the framework outlined, although it is mainly limited to leases or operating franchises. It suggests that “in the future we will see more hotel and restaurant companies establishing strategic alliances. It is no longer financially feasible for a hotel restaurant to be operated as just a support function to the hotel’s lodging operations.” (Strate & Rappole, 1997). This notion is supported as well by Chathoth and Olsen (2003), who propose that “firms have realized that value-adding resources are becoming increasingly scarce, and have used different measure to address this issue.” These principles relate directly to the Cs of competition, core competencies, and co-branding, as they provide a precedent for the use of alliances as a value-adding resource. Furthermore, an operator must recognize food and beverage as a value-adding resource, and utilizing the principles outlined by Kanter (2000), perform an analysis on the characteristics and benefit of an alliance, or arriving at a “buy” solution.

The limitation of the core articles relating to strategic alliances in the context of hospitality is that they generally discuss options and models specifically related to the “buy” scenario of either leases or third party management contracts, and most often leases. However, they provide context for understanding the value, existence, and application of the “buy” scenario, and therefore provide a tool for understanding the decision making process outlined in this paper. The development of the author’s approach to the “make or buy” dilemma was informed by the fact that the majority of the articles discussing these types of alliances in the hospitality sector focused on the “buy” solution. It has been the author’s experience that when operators focus on the benefits and strategies associated with a particular solution, that it often

comes at the price of a more instinctual, emotion driven, or self-serving approach for that solution, and denies the operator the framework necessary to make a more comprehensive and informed decision.

Additionally, while many of the articles and the literature speak to the strengths and benefits of co-branding, there is a real potential for a negative alliance in situations where the two brands are not successfully aligned. The bulk of the work speaks to the benefits of finding a cohesive and parallel alignment amongst brands, but there is a risk and certain exposure to both parties in the situation. The benefits of co-branding are not one sided, as the relationships are not guaranteed at the outset, especially if a core understanding of the compatibility of each brand is not explicitly stated or understood. It is the author's experience that in the personality driven world of the chef that the brands themselves can be volatile. This poses an inherent risk to any operator seeking to reap the benefits of co-branding, and is an important consideration in the relationships.

## **Restaurant Strategy**

Another important factor in the establishment of the framework developed here is an understanding of what makes a restaurant successful, and how this success is determined. To this extent, the author focused on two articles by West and Olsen (1990) and by Parsa, Sel, Njite and King (2005) that address the subject of restaurant strategy, and also provide the foundation for a framework of analyzing and understanding success in a restaurant. Both articles are important resources in understanding the demands and needs of both solutions to the "make or buy" dilemma.

Parsa et al (2005) is a pivotal study in the demands, difficulties, and operations of restaurants, as well as integral in expanding the dialogue in regards to performance and a multifaceted approach to analyzing restaurants. Taking issue with the commonly cited statistic that "90% of restaurants fail within the first year of operation," the authors explore the causality

of restaurant failure, as well as seek to understand the way the statistics are reported. In doing so, they point out that “most hospitality research has focused on the relative financial performance of existing restaurants instead of examining the basic nature of restaurant failures.” The article outlines three perspectives on which to define failure: economic, marketing, and managerial. In their paper, they define failure as ceasing to operate; however, these three perspectives can conversely be applied to the success of a restaurant in other situations. The benefit of this article to this thesis is that in examining restaurant failure, it provides a mechanism by which to examine restaurant success as well. Typically, if a restaurant is operating, it may be considered a success, but the reality is that there are a myriad of influences that both determine and define success, contingent on the operating environment of the restaurant. For the purposes of this thesis, the author is focusing on hotels where success can be defined by the same three perspectives that Parsa et al. (2005) outline for failure. Their article also provides an in depth qualitative look into the experiences and operations of restaurants, and highlights the complex influences on success. This textured approach provides validity for the proposal that there are multiple factors on which success or failure can be measured and more importantly, there are a wide range of factors responsible for an operator arriving at either of these places.

The factors critical to the success or failure of a restaurant suggested in Parsa et al. (2005) provide a good foundation for the core competencies component of the framework. Through their qualitative investigation of restaurant failure, the authors discovered that “a successful restaurant requires focus on a clear concept that drives all activities.” Furthermore, “failure seemed to stem in large part from an inability or unwillingness to give the business sufficient attention, whether due to lack of time, passion, or knowledge.” This relates directly to the idea of a core competency in a hotel, as these components all must be possessed within an operation to successfully make a food and beverage outlet.

Most importantly, Parsa et al. (2005) sets the stage for the framework developed here by suggesting that “further research should focus on those factors that have been found to be the

most critical to restaurant survival. Although it is comforting to work with numbers and to look at external forces and failure rates, it is more important to get to the core internal issues underlying restaurant viability.” This is exactly what this thesis seeks to do by using a textured, nuanced, and qualitative analysis of the “make or buy” decision. While Parsa et al. (2005) suggest that concept and competency are the key indicators of restaurant viability, rather than strategy, West and Olsen (1990) propose that there are elements of restaurant strategy that contribute to success. The key elements that they outline are: control, focused differentiation, focused efficiency, image management, and innovation and development. Components of each of these are included in the development of the framework in this paper, specifically in core competencies, cost, and competition. The focus strategy suggested asserts that, “firms employing a focus strategy seek to emphasize service to a specialized market, while they effectively balance a strong orientation toward efficiency and differentiation with image management” (West & Olsen, 1990). This is particularly relevant to the “make” scenario discussed in this paper, as this type of focus is a strategy not often employed by hotel operators. The work of West and Olsen (1990) provides a crucial precedent for the examination of particular attributes of a restaurant or operator’s strategy, and their impact on the success of the endeavor.

## **Summary of Literature Review**

The literature review seeks to establish an academic and practical precedence for the application of the 5 Cs as discussed in the next chapter, as well as to provide an understanding of their genesis through published research, existing articles, and the author’s experience. By defining and outlining the characteristics of each of the relevant engagement scenarios, and proposing the key elements and origins of each of the 5 Cs, the author intends to provide a foundation for their utilization. Moving forward, this paper will seek to define a method by which the 5 Cs can be analyzed and applied by hotel operators utilizing a qualitative approach. The literature review provides the support for this approach. However, as illustrated, there are

very few existing publications that specifically address the methodology by which an operator should consider whether to make or buy food and beverage outlets. Furthermore, while there are existing articles and papers on methods by which to identify and achieve restaurant success, as well as articles outlining the benefits of co-branding, strategic alliances, and leases, there is not a comprehensive framework for considering all of these components. The 5 Cs will outline a framework by which the full scope of restaurant operations can be examined.

## **CHAPTER 3**

### **THE 5Cs: THE PROPOSED FRAMEWORK**

#### **Defining The 5 Cs**

The framework of the 5 Cs was developed from the review of the articles and literature outlined in the previous chapter. The 5 Cs are an interdisciplinary framework that identifies and addresses the integral components of an operation that inform rational and successful food and beverage programming. The 5 Cs framework is comprehensive and dynamic. Each component informs or supports the others, allowing for an in depth operational and organizational analysis. As informed by the articles outlined in the previous section, the framework of the 5 Cs proposed by this paper is comprised of the following components, defined as such:

- *Core competencies*  
Core competencies address the skill set of the organization and its management, and their ability to conceptualize and execute food and beverage concepts.
- *Competition*  
Competition refers to the analysis of the level at which a given property or organization faces competition from the market in its food and beverage department. It also assesses a property's opportunities and potential competitive advantages to be gained by improving food and beverage offerings.
- *Costs*  
Cost refers to the associated costs of developing successful food and beverage programming. It also refers to a cost benefit analysis to be conducted by a given organization and its management. This analysis is not purely an economic or financial measure, but can also include intangible costs such as exposure, media coverage, differentiation, and desirability.



- *Culture*  
Culture addresses the feelings and philosophies of an organization and its management in regards to both the need and desire for well-executed food and beverage. Culture is also a vital component of any decision to bring in a third party operator, as the ability of two organizations to cohabitate in a given property is paramount to either's success.
- *Co-branding opportunities*  
Co-branding addresses the value of the given tenant or partner to a given property, as well as recognizes the value of the property to the third party operator.

## **The Five Cs**

The core of this paper is the theory that there are five key elements that need to be explored when determining the best option for food and beverage programming in a hotel. While the phrase “the 5 Cs” provides a convenient catchphrase, the development of the corresponding framework necessitates a deeper dive into each of them. The following section will outline each of the elements by defining them, and relaying experiences in which the author has encountered them, or their lack, and how that has impacted the programming process. It will outline how the disparate literature covering a broad range of academic principles in this section so far applies directly to the creation and identification of the 5 Cs.

Ultimately, the 5 Cs should function as a road map for an internal dialogue conducted by a hotel owner or operator and the property management team. By taking a comprehensive and thorough assessment of each of the categories, informed by relevant academic and expert literature, the author intends to establish the case for their importance in the consideration of the “make or buy” dilemma.

**Core Competencies.** Every individual, organization, or firm has a core set of competencies that, to some extent, define their ability to succeed in a given area or market (Prahalad & Hammel, 2009). For the purpose of this paper, a competency will be defined as a core set of skills possessed by a firm or organization that allow for it to efficiently and profitably execute a required action. In the author's experience, there are multiple areas of competency that are necessary for successful food and beverage programming in a hotel. They fall into the categories of: creative, organizational, culinary, and operational (Parsa et al., 2005). It is necessary for an organization to possess a competency in all four of the categories to successfully create and execute an effective food and beverage program.

**Creative.** Creative competencies are an important part of the process for building and maintaining successful food and beverage programming. These competencies include the ability to consistently develop relevant and evolving restaurant concepts and menu items, and should exist at both an on-property, as well as corporate level, if applicable (Parsa et al., 2005). Creativity is a common, almost necessary, competency in the world of independent restaurants, but can be less common in a hotel environment, especially in a larger corporate structure. This is a byproduct of organizations focused on providing an amenity rather than a revenue center (Eyster & Goldman, 1992). It has been the experience of the author that hotel chefs are often more concerned with consistent execution of an established and proven menu, rather than innovation or expansion. This is certainly a competency in itself, and an admirable one, and is considered an operational competency. However, as this paper is directly concerned with the issue of whether or not to make or buy a hotel's food and beverage programming, it advocates that if there is not an internal skill set to create exciting, relevant, and executable restaurant concepts and menu ideas, that this process should be "bought." Creativity is a difficult characteristic to typify in this situation, as it can take many forms.

In terms of successful food and beverage programming, creativity at a minimum includes an ability to generate, articulate, and discuss a variety of programming solutions and suggestions for different situations on a regular basis. This dialogue must be part of the regular operations of the property, and if it is not already in place and not easily started, it is most likely lacking. If an operator and/or management staff does not actively or regularly consider new solutions or improvements to food and beverage, nor consistently create relevant and popular specials and limited time offerings, it could be said that there is a lack of a creative competency and that this should be sought through a third party (Kanter, 2000). However, an organization that is lacking in a creative competency may still be able to develop a competitive, internally run food and beverage program with the assistance of a third party creative consultant during the early phases of development.

***Organizational.*** An organizational competency refers to the size, scope, and abilities of a property's food and beverage department. If a property does not have a food and beverage department, this competency is absent. The food and beverage department should include a director, who reports directly to the General Manager of the hotel but also work directly with them. This individual should also regularly utilize the other departments of the hotel, especially marketing and sales, and have a good working relationship with all other department heads. It is important that the food and beverage department work in conjunction with the other aspects of hotel operations, and not in a silo. Below the director there should be a layer of management responsible for each of the main outlets of the hotel, both in front and back of house. Additionally, there should be an individual responsible solely for beverage. If a hotel is not large enough to necessitate a banquet director or beverage director, these should be competencies embodied by the department leader. Overall, an organizational competency requires a departmental structure that is assembled in a way that each outlet is efficiently and properly operated and that the entire department can function together towards a common goal. The

members of the food and beverage team should be experienced as well, and have clear leadership skills. A department without a leader, with a supportive structure behind that leader, is essentially useless. It can be difficult to take an internal audit of leadership skills, but when exploring the question of whether to make or buy, it is necessary that an operator take an honest look at the food and beverage department and assess leadership ability (Kanter, 2000). If there is a void in leadership, it must be recognized and addressed in order for an organizational competency to be established. Simply having a staff with the requisite titles does not a competency make.

***Culinary.*** A culinary competency is a fairly straightforward one to recognize. Do you have a qualified and talented culinary staff? Even more straightforward, are your employees able to cleanly and efficiently cook food that tastes good in a required variety of situations? At a certain level of hotel, the answer is often yes, but not always so. A competent culinary staff should be able to easily and efficiently handle the demands of a hotel food and beverage program, including banqueting, room service, and three meal restaurant service. It should be properly structured, with a clear leader and manager, often an executive chef or chef de cuisine, an intermediate management staff, sous chefs, line-level executors and support, line cooks, prep cooks, dishwashers (Parsa et al., 2005). In the author's experience, the most important piece of this competency is clear and experienced leadership, with the proper management structure to support the demands of a given property. If an executive chef or chef de cuisine is not concerned about items such as cleanliness, efficiency, or quality, it is next to impossible to offer a good food and beverage outlet. One of the benefits of a third party management contract is that the operator most often has a pool of extremely qualified culinary talent available, and is often a draw for other qualified culinary talent (Boo & Mattila, 2002). Since full service hotels have to serve food, it can be easier than one would think to end up with a subpar culinary staff, purely out of necessity. When examining for a culinary competency, look at the overall organization,

motivation, and execution of a property's outlets, then look at the food. A real culinary competency will include a clean kitchen, an organized staff, a clear inventory system, well-executed food, and an ability to handle any and all of the culinary demands of the property.

***Operational.*** An operational competency covers a department's ability to physically run one or more outlets effectively. This includes ensuring proper staffing levels, consistent quality, appropriate hours of operation, sustainable costing and pricing structures, and excellent customer service (Parsa et al., 2005). In order to achieve an operational competency, an outlet must deliver its promised concept and quality in a regular and efficient manner. Ideally, this competency should include an ability to not lose money, and if money is lost, to recognize why and address the issues. An operational competency also encompasses the ability of the members of the department to effectively manage on a daily basis, and execute the vision and strategy that is laid out at an organizational level. At the end of the day, the operational competency addresses a hotel's ability to profitably run a food and beverage program that meets the needs of both the guest and the property. This is extremely difficult to do, and the lack of this competency across a wide scope of clients was one of the inspirations for this paper.

It is important that an operator recognize what his or her competencies are in regards to food and beverage operations (Kanter, 2000). This applies to all three of the standard engagement scenarios, as each requires different competencies. Many hotel operators are excellent at providing an exquisite guest experience; this does not mean that they are qualified to run restaurants. Going back to the Ritz-Escoffier partnership, it has long been recognized that the best hoteliers should seek out help in regards to their culinary operations (Kamp, 2006). An honest internal audit must be conducted of the competencies of the concerned hotel, resort, or casino organization at both a corporate level and a local level (Kanter, 2000). If there is a qualified managerial team in place to envision, articulate, create, and execute a food and beverage concept, there may be a necessary competency to operate internally run restaurants. In

the author's experience this is rarely the case. After a complete assessment of a property's competencies has been completed, an operator should examine the cause of deficient competencies, and seek out solutions for resolving them. In some cases, all that is needed to establish a competency is a change in personnel, which can end up being a cost reducing action.

**Competition.** Food and beverage is one of the last areas where upscale and full service hotels can truly and clearly differentiate themselves in the market and establish a true competitive advantage (Boo & Mattila, 2002). When considering whether to make or buy food and beverage outlets, a property must examine what is its current competition, what are those competitors offering in terms of food and beverage, and on what factors is the property currently competing. If the competition is offering internally run food and beverage outlets, an operator must do an honest assessment of their quality and appeal. All three of the engagement scenarios can provide a competitive advantage. The key is to recognize the opportunities in the market, and to capitalize on them. For instance, if there are no branded restaurants in hotels in the market, there may be an opportunity to establish a sizable competitive advantage by introducing one (Willis, 2002). Additionally, if there is a surplus of a given concept, there may be an opportunity to create a unique concept that has been proven in other markets. When considering introducing a concept into a market, it is important to look to any historical information. If these concepts have been introduced and failed in the past, the reason for this should be examined before moving forward, as programming a concept that is an established failure will rarely result in a competitive advantage (Olsen & West, 1990).

When considering the competitive advantages of food and beverage, the first step is for a property to analyze how it currently competes and on what factors (Parsa et al., 2005). This holds true for both the property as a whole and its food and beverage offerings. Typical factors on which the author has seen properties compete include location, price, overall quality, ambiance, experience, and food. It is possible to establish a competitive advantage simply based on one or

two of these components and this is often a more achievable approach than attempting to simply win all categories. To this point, it is a common prerogative of food and beverage directors to want the “best restaurant in town.” This is not a strategic or rational approach. It is important to strive for dominance, but it is best achieved by taking a strategic and specific approach. This means, in exploring the competitive landscape, it is important as a hotel operator to articulate what it is that would make a restaurant the “best.” Additionally, it is important to look at potential management partners or tenants and identify specifically what advantage they may provide you. Ideally, the advantages provided to you will align with deficiencies identified through the 5 Cs (Kanter, 2000).

**Costs.** The cost of establishing a food and beverage program consists of both immediate and tangible financial costs, as well as less tangible and long-term costs. A full examination of both types of cost must be conducted when creating or considering a food and beverage program. This section will outline some of the costs that must be examined when deciding whether to make or buy. Unfortunately, it does not boil down to a simple solution, where pursuing one scenario versus another provides a clear cost benefit structure. Each scenario must be examined by the operator -- and depending on their needs, operating environment, and budget -- thoroughly considered. Fundamental to this process however is considering the costs of the various scenarios beyond simply the opening costs. This includes asking important questions such as *what will it cost to maintain this restaurant* and, *what will it cost to close this restaurant* before re-opening. This type of examination is too often overlooked, and can create severe issues later in the life of the property (Reich, 1993).

From a purely financial point of view, a basic analysis should be conducted of the revenue expected from each of the three engagement scenarios. The best way to calculate this is what is referred to as a “back of the envelope” calculation. This is a quick method that takes into consideration average check, average covers, and hours of operation to estimate an approximate

annual revenue stream. If using a third party, an operator should be able to look at their other stores to estimate what type of average check to expect. Historical data provides a good starting point for making assumptions about traffic, and hours of operation should be dictated by the hotel's needs. However, these calculations only represent a small portion of the cost of food and beverage operations. For the purposes of this paper, there are three areas of cost that the author strongly recommends an operator consider when deciding whether to make or buy: departmental costs, operational costs, and the cost of failure.

***Departmental Costs.*** What are the costs involved in establishing a department? Building a food and beverage program from scratch can be an expensive endeavor, especially to properly run internal outlets. Some of the factors that need to be considered are additional managerial staff, office space, and technology (Parsa et al., 2005).

Depending on the size of the property, and the scope of the department, it will be necessary to hire a departmental director, executive chef, beverage manager, restaurant manager, and support staff. In most scenarios, this managerial team is at least partially in place, but if the property is not operating successful food and beverage outlets, it usually means that management is either deficient or insufficient. This mandates hiring additional experienced, salaried managers. This process ultimately costs more than just the salaries paid to these employees, and includes the costs of recruiting, transporting, interviewing, and onboarding this staff. Additionally, the average annual salaries for this type of department can range between \$40,000 and \$100,000 ([www.payscale.com](http://www.payscale.com)). Beyond the costs associated with recruiting and hiring a quality managerial staff, there are the practical costs of creating or expanding a department, as previously mentioned. Office space is always at a premium in a hotel, and providing a workspace for an expanded or new department can have associated costs involved in building, furnishing, or finishing a space. Additionally, there can also be political costs in establishing this space if it is taken away from another department. However, establishing a properly organized and staffed



department will lead to efficient and well-run operations, with a positive long-term impact to the bottom line.

The departmental costs associated with leasing outlets are much smaller than the costs associated with building and staffing a department (Eyster & Goldman, 1992). These costs are generally limited to the TI costs and any associated maintenance costs, which are usually able to be billed back to the tenants. It is necessary, even if all outlets are leased, to have a food and beverage representative on the hotel's operations team who is able to coordinate the tenants, but other than that there are much fewer demands. To many, this is a major upside to leased tenants (Eyster & Goldman, 1992). However, if the leases do not work out, the hotel can find itself in a difficult situation and have to revert to building a department from scratch. The negotiation process for tenants can have departmental costs as well, as it is necessary to retain legal counsel and devote managerial energy to this process. Depending on the scope of the property and the number of outlets necessary, these costs can be significant, but are rarely a deterrent for a property large enough to even incur them.

Utilizing third party management contracts has very similar departmental costs to running food and beverage outlets internally (Strate & Rappole, 1997). Since the employees of these types of outlets are generally on the payroll of the hotel, it is necessary to have an appropriate management structure to oversee them. Additionally, it is not uncommon for a third party to be responsible for the dining room and restaurant, but the hotel to internally operate room service, which requires appropriate departmental staffing. However, one of the benefits of a third party contract is that typically, the caliber of chef who is able to enter into this type of contract attracts a higher caliber management staff. This can mean that turnover will be lower, recruiting costs less, and training costs less. In the long term, this kind of draw and stability can end up being much more economical than trying to attract a high enough caliber managerial staff to internally operate outlets that are able to compete with branded restaurants. This is a decision that should be considered in comparison to the market. If a property is a destination, and the demand

generator is inherent in its location, it can be very expensive to install the management team that is typical for a property operating high-end third party management contracts. In these situations, it is often more practical and affordable to consider building a solid internal department and operating through the “make” model.

***Operational Costs.*** These costs refer to those necessary for maintaining a high quality and successful restaurant operation. While logic may dictate that these would simply correlate to daily operational costs such as food and labor, and required capital expenditures, there are other factors that also must be considered. These types of costs most directly apply to internally run outlets, but also have application for third party management deals.

In regards to labor, as the life of a restaurant progresses, the cost of staffing will fluctuate. Raises will be necessary to keep talent on property, and a certain amount of turnover must be expected (Parsa et al., 2005). Replacing and training have associated costs. Additionally, if restaurant is operating in a union environment, there are pay scale issues and regular raises that will be dictated by the union. Unions also make it difficult to replace workers, and can result in excessive staffing which has a tendency to negatively impact an outlet’s bottom line. This is another area where there are clear benefits to leases and third party management contracts, as they can often provide loopholes or opportunities to introduce non-union labor into a union environment. This can have significant upside in terms of profit for the property in the long run, and create a much more sustainably labor environment.

One of the main hidden operational costs that the author regularly experiences is the price of consistent innovation and relevance (Olsen & West, 1990). Once a restaurant is proven popular or successful, there is a cost to perpetuate that popularity and innovation, as well as creativity that can be expensive to maintain. First of all, there must be adequate staff that is paid well enough to happily devote time to creating new dishes, and to have the time available to do so. Additionally, if an internal chef garners critical attention and popularity, there is a definite

cost associated with keeping this chef. These costs are not necessarily barriers, but simply components that should be considered. A lot of the costs of innovations will be inherently absorbed by a lease or third party engagement scenario (Satran, 2011). However, if a hotel is serious about developing a competitive, creative, and profitable internally run concept, there should be some attention given to research and development, and recognition that at some point, there will be costs associated with this. It has been the author's experience that often a concept that was once a good idea is forced into a cost structure established at inception, which does not provide enough room or resources to continue to develop and expand the concept, which ultimately results in its stagnation, suffocation, and failure.

The operational costs of maintaining a competitive, value generating, and well-run restaurant in a hotel involve continued marketing, labor, and maintenance costs, as well as costs associated with supporting creativity and culinary relevance. Marketing costs include promotion, comps, charitable donations -- including time and product -- catering and banqueting materials, graphic work, as well as any fees associated with hiring a marketing firm. It has been the experience of the author that hotels tend to see the best success by hiring a marketing or PR firm specifically for a restaurant, rather than lumping the restaurant in with the whole property's marketing strategy. That is not to say that food and beverage outlets should not be a center piece of a hotel's marketing strategy, but rather that an independent marketing campaign can target and reach a different customer base than the grand marketing strategy

***Costs of Failure.*** The cost of failure can often be one of the most underestimated costs in hotel food and beverage. The cost of remedying a failure can consist of the all the costs outlined above, as well as additional marketing and PR expenditures necessary to attempt to recover from the failure. Those associated costs are only if the restaurant that has failed is an internally run outlet. If a third party management contract or a leased outlet fails, it can be very difficult and expensive for a hotel to extrapolate itself from the situation in a cost-effective manner. In most

scenarios, it is necessary for the hotel to continue to operate an outlet until a replacement has been found. In a leasing scenario, this often means operating a restaurant that produces no revenue for the hotel; in a management scenario this can mean operating a restaurant at a steep cost to the hotel. The failure of an outlet can also make it difficult and expensive to attract a new tenant. These costs can include a more generous than usual TI budget, or a complete renovation, as well as rates that are extremely favorable for the tenant, depending on the situation of the operator. Furthermore, a failed restaurant can have a negative impact on the overall image and positioning of the property. In the same way a successful restaurant can boost the popularity and demand of a hotel, a failed restaurant can deter traffic, drive down ADR, and create bad press.

**Culture.** The culture of an organization has an integral role in its daily operations and capabilities. A culture is something different from a brand, and can be created on both a larger corporate level, as well as at a property level (Guillet & Tasci, 2010). This culture covers a variety of important parameters, including philosophy, attitude, emotional interactions, and management techniques. Within a property there will be cultures within each department, as well as on a larger scale. It is very important that an operator recognizes and identifies the cultural structure of a property when considering food and beverage, regardless of the engagement scenario (Chathoth & Olsen, 2003). As previously discussed, if an operator chooses to lease to a third party that does not share and understand the operator's culture, the partnership will be doomed to fail (Kanter, 2000).

In order to fully assess the relevant aspects of culture, a hotel operator must look at the property's culture as whole, the culture of the flag or brand, the culture of the food and beverage department, and the culture of individual outlets. While this may seem like a rather large scope, in an ideal situation there will be a commonality across all of these areas. If, as an operator, one looks at the culture of a specific outlet, and recognizes it to be in sharp contrast to the greater culture of the organization, this should be a red flag (Boo & Mattila, 2002).

A cultural assessment begins with a two key questions: What are my organization's core beliefs and values? What are my organization's priorities? These questions should be asked at all of the levels outlined above, and while there should be some space built in for variance based on a given department's specificity, there should be an underlying commonality in all of the responses (Kanter, 2000). Within a hotel organization, culture manifests itself in a variety of areas that are easily identifiable, the first of which is the service culture. How is the guest treated? How is the guest considered? Will you do anything and everything for a guest, putting their happiness above all other concerns? Or, is there a well-defined limit in regards to what you are willing to offer your guest? There is a somewhat surprising range of responses to this, with some operators putting guest satisfaction above all else, and others putting organizational efficiency and profitability above all else. The way your guest is treated, from arrival through a meal, all shape your organization's service culture, and it is important that your restaurant reflect this. Furthermore, since restaurants are often opportunities for individuals who are not staying at a property to experience a given property, they are key communication platforms of culture and service standards. If a guest is treated poorly at a restaurant, they are unlikely to think highly of the hotel.

The second area where culture manifests itself is the ethos of an organization, its philosophies and core beliefs. This area does tend to overlap some with marketing, as these points can be a part of the property's strategy and positioning. The components of a property's ethos are the characteristics that truly define and differentiate it. For many properties, there is a weak and ill-defined philosophical core, which can be especially true at the franchise level of the larger corporate brands. However, the emergence of the boutique hotel in the 1980s, and a continued emphasis on sustainability, regionalism, and locavorism<sup>7</sup>, as well as diet sensitivities in recent years, has resulted in the creation of properties with strong and well-defined ethos

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<sup>7</sup> Locavorism is the premise that locally grown and produced food is preferable to food produced and brought in from elsewhere.

(Kamp, 2006). When programming food and beverage, it is important to align the ethos of the outlets with the property as a whole (Chathoth & Olsen, 2003). If a hotel is focused on providing an affordable, hip, and design-oriented experience for a younger generation, it does not make sense to attempt and create a four-starred white tablecloth dining experience as the main restaurant. Here, as with service culture, a hotel is presented with an opportunity to tangibly manifest its ethos in a consumable and interactive way through its restaurants, and it is important to both recognize and articulate these pillars when considering food and beverage programming.

**Co-branding.** Out of the 5 Cs, one of the most important to consider is co-branding, and its benefits, and risks, for the property. The benefits of co-branding are almost exclusively aligned with either a lease or third party management scenario, and are generally one of the strongest arguments for pursuing these type engagements. Co-branding in many cases represent a large portion of what is purchased in the “buy” scenario. However, in order to realize the best upside in a co-branding scenario, it is important for a hotel operator to consider what benefits they expect and what benefits this arrangement can truly offer. This is discussed in all of the relevant articles, and explored in particular detail in Boo and Mattila (2002). In many cases, a hotel owner or operator will either have a personal affinity or attachment to a specific restaurant operator, or will feel the need to bring in a restaurant brand without truly considering why.

The first aspect of co-branding that is important for a hotel operator is whether or not a given restaurant operator or brand is aligned with the hotel’s positioning (Boo & Mattila, 2002). A congruency in position, target market, philosophies, and pricing is an important foundation for a successful co-branding relationship (Kanter, 2000). This congruency provides an opportunity for a property to then expand its reach and increase penetration as well as supplement the existing customer base with new customers attracted through the restaurant brand (Boo & Mattila, 2002). In order to achieve this, it is important that an operator honestly and thoughtfully assess the hotel’s brand and identify both its strengths and weaknesses. There are three key

foundations for considering the creation of a successful partnership: self-analysis, chemistry, and compatibility (Kanter, 2000). In the author's experience, one of the best methods for conducting this analysis is to create an outline of the property's strengths, weaknesses, opportunities, and threats (SWOT) as well as a similar outline for the food and beverage department. The same can be conducted for the various operators being considered. This action will help ensure a successful partnership, versus simply choosing a restaurant operator the hotel owner likes. Additionally, an exercise such as this will provide a solid foundation for considering the other two aspects that Kanter (2000) outlines -- chemistry and compatibility. A well-considered restaurant or food and beverage partnership can both bolster strengths and offset weaknesses.

The financial benefits of a co-branding arrangement are contingent on the contractual structure of the relationship. As outlined in the engagement scenarios, and suggested by Strate and Rappole (1997), as well as Rossant (2004), a third party management contract can be much more lucrative for a property than a straight lease. However, the increased visibility, penetration, and expanded customer base that can come with a successful alliance should be factored in to the upside for the property. While restaurant revenues may ultimately be comparable or even a little less with an alliance, there is an established history of upside to the property as a whole as a result of these types of relationships (Boo & Mattila, 2002). The author has seen this come to fruition repeatedly.

Beyond the financial benefits of a co-branding arrangement, there are many potential intangible benefits for both brands. Beyond appeal to a wider customer base and increasing penetration, one of the main appeals of co-branding is a symbiotic relationship in which the perceived value and quality of each brand is increased and supported by their association with each other (Strate & Rappole, 1997). Consumers are very brand sensitive, and this holds true within the hospitality industry. If an operator is concerned about losing market share and finds they are unable to differentiate or compete in a given segment, the addition of a food and beverage brand that has a foothold in that segment boosts the positioning of the entire brand.

Additionally, for an independent restaurant operator, a management contract with an established and respected hotel group can have the impact of bolstering their reputation, as well as expanding their visibility. This arrangement can also benefit the hotel brand, which has the opportunity to establish “tastemaker” status and can provide an intangible “cool” to the entire brand. Furthermore, co-branding can have a direct impact on guest perception of a property, as well as guest perception of value (Strate & Rappole, 1997).

Ultimately, while co-branding offers many potential benefits to both sets of operators, it also provides some significant risks that must also be addressed and considered by the operator. Co-branding adjoins both brands in what should be perceived as a mutually beneficial and stronger brand; however, if one of those brands suffers significant damage in the eyes of the market, it also exposes the partner to ancillary impact, and potential damage to the brand. While a majority of prior research cited in this thesis speaks to the benefits of co-branding, it has been the author’s experience that there are also significant risks associated with it, especially in regards to the personality-driven nature of celebrity chefs and chef-brands. Most of the major literature regarding co-branding addresses established and proven brands and corporations. However, the reality of the operators most specifically addressed in the context of this thesis is that many of them are individuals prone to potential financial, personal, emotional, and PR issues. The personalities of the chef-brands are what create their appeal, but they are also fragile entities that can easily be disrupted.

### **The Make or Buy Options**

In order to fully understand the application of the 5 Cs, and the problem of whether to make or buy, it is important to understand the two options facing operators. The following section will outline the fundamentals of these options. A third party management contract represents a very straightforward “buy” solution, whereas internally run is very literally a “make” solution.



The following descriptions focus mainly on providing a qualitative and practical understanding of the options from the hotel operator perspective. The main resource for this section was an article written by Goldman and Eyster (1992). Additionally, the importance of these scenarios and their relationship to the “make or buy” scenario was set out Maher (1997), whose work provides a precedence for contractual structure and the associated transactions as a determinant in the “make or buy” decision across multiple industries. As previously mentioned, this thesis seeks to provide a guideline for hotel owners and management to properly make informed decisions about their food and beverage programming. The parameters of each scenario set forth here are based in experience, as the author has created numerous internally run outlets as well as currently operates two management contracts. These are not specific legal definitions and should not be used as tools for contract writing, but rather as tools for understanding and weighing the available options.

It has been the author’s experience through countless negotiations and conversations with restaurant and hotel operators, as well as personally operating management contracts and leases, that the implications and demands of the various engagement scenarios are rarely fully comprehended. This can lead to significant operational and financial implications, both negative and positive. Ultimately, the application of the 5 Cs requires an understanding of the different engagement scenarios because each offers its own solution. Examining these scenarios in a straightforward manner will contribute to the rational process of determining proper food and beverage programming that this thesis is proposing.

**Leases** The decision by an operator to lease space to a third party operator represents the most straightforward example of a purely “buy” solution to food and beverage. There are a variety of benefits to this approach, contingent on the proper alliance between operator and tenant (Chathoth & Olsen, 2003). To better understand this type of engagement scenario it is important to examine the typical structure and parameters of the agreement.

In the leasing scenario a tenant rents the space from the operator for a pre-determined price per square foot. Additionally, a percentage rent may be negotiated. In the author's experience this percentage typically ranges between four percent and eight percent of monthly topline sales. Furthermore, more complex leases may be negotiated in which a percentage rent is only taken after the achievement of a pre-established revenue level, prior to which a straight per square foot rent is paid. Additionally, the owner typically provides the tenant with a tenant improvement (TI) allowance based on the square footage of the space (Eyster & Goldman, 1992). Depending on the cache of the tenant, and the perceived upside on the part of the owner, this allowance can range from a very small amount, to a full build out. During the boom years in Las Vegas at the turn of the millennium, it was not uncommon to see full build outs included in leases for top tier tenants; however, this has become less common (Lapin, 2012).

Beyond the rent structure and TI dollars, an owner may charge a common area maintenance charge based on square footage of the outlet. Typically, the tenant is responsible for any and all real estate taxes, based on the square footage of the store, as well as all operating expenses (Eyster & Goldman, 1992). These parameters provide a generic synopsis of some of the common components of a restaurant lease in a hotel environment and they are based on the author's experience and serve as a qualitative summary as opposed to a legal or academic resource.

The lease structure offers several positive and appealing aspects to the hotel, operator. First of all, again depending on the caliber and prestige of the tenant, the tenants will often invest capital to renovate the space, which can booster the façade of the property, as well as its appeal in the market. Additionally, this process allows for the expression of a given brand within in the property, potentially strengthening the alliance established through the lease, and

contributing to the realization of the benefits of this alliance. Furthermore, a lease agreement provides the landlord with a pre-determined baseline stream of rental income. This can expire in unfortunate situations, but if the 5 C's are properly followed in the decision to lease and the selection of the tenant, this risk is greatly reduced. A leased tenant also takes the pressure of managing and marketing a restaurant off the hotel's management. This is particularly true with national chains and well-branded celebrity chef concepts. From a managerial perspective, the lease requires the least involvement and effort out of any of the engagement scenarios, and is therefore well suited to properties where there is either a lack of managerial resources, or a lack of competency in terms of restaurant operations (Eyster & Goldman, 1992).

There are also, of course, negative implications to a leased tenant. The most pressing downside to this arrangement is a lack of operational control (Eyster & Goldman, 1992). While certain parameters may be structured into the physical contract, in the leasing scenario, the tenant is essentially operating independently within the physical space of the given hotel. This can be particularly problematic in scenarios where the 5 C's are not thoroughly followed, and the tenant operates in ways that are at odds with the image, guidelines, or philosophies of the owner (Eyster & Goldman, 1992). A lease agreement may also require significant TI costs on the part of the owner. This depends on the location of the space as well as the caliber of the tenant, and to some extent the need to fill the space. Also, again depending on the location of the outlet and the needs of the property, a lease agreement may create a situation in which it is difficult to terminate the lease due to non-payment. If a tenant cannot pay rent, but it is necessary to have the outlet operating, or you cannot afford to have an unoccupied space, the owner may have a hard time terminating the lease and replacing the tenant in a way that is efficient and profitable in the long run.

**Third Party Management Partnerships.** While leases and internally run restaurants represent two traditional and clearly defined solutions to the “make or buy” dilemma, a third party management partnership offers somewhat of a hybrid solution, although it still qualifies as a “buy” scenario. These types of arrangements were pioneered in Las Vegas by chefs such as Jean-Georges, Todd English, Puck and Charlie Palmer in the 1990s, and have become increasingly commonplace, especially in upscale hotel environments (Rossant, 2004). The author was personally involved in the negotiations of many of these agreements during her tenure with Mirage and MGM, and later with Wynn as Steve Wynn significantly expanded the number of celebrity chefs in Las Vegas (Michaelides, 2005). This type of engagement is typically more complex than either an internally run or leasing arrangement, and can involve many rounds of negotiation. Due to the complexity of these contracts, the negotiations involved, and the unique parameters that often define them, it is difficult to typify them in the same way as leases or internally run outlets. This section will provide some of the common attributes and organizational scenarios as discussed in Rossant’s book, *Super Chefs* (2004), as well as documented in industry press. On a side note, as chef’s popularity, brands, and powers have grown, and as the economy has fluctuated over the past 20 years, the author has seen an incredibly diverse range of outcomes in this type of scenario (Liddle, 1999). Current trends have shown that for upscale properties seeking to expand their branding through food and beverage, this engagement scenario is a clear choice versus a straight lease (Satran, 2011).

In the management contract scenario, the property may have a similar organizational structure to an internally run scenario, with a food and beverage director who reports directly to the GM or property president. In most cases, the owner of the property will pay for the construction of the restaurant, and sometimes all the pre-opening expenses. Depending on the power of the brand or chef-brand, there may also be a sizeable development fee paid to the restaurant operator prior to opening the restaurant (Rossant, 2004). The budget and development

fees are negotiated between the two parties as part of the contract. Once the restaurant has opened, the owner (operator) collects all of the restaurant's revenue and pays all payroll and operating expenses. Therefore, in this scenario, line level employees are typically employees of the hotel, and management may be as well. A management contract is a fee-based arrangement. The restaurant operator is usually compensated through a percentage of gross revenue, averaging between 3% and 8%, as well as a percentage of net revenue, averaging between 5% and 20% (Rossant, 2004). The restaurant will have its own monthly or quarterly profit and loss statement, and the hotel operator will charge an allocation of departmental expenses as a line item before net profit is tabulated (J. Lapin, personal communication, March 24, 2012). These revenue splits serve as an incentive for the restaurant operator to create and run a successful and profitable restaurant that serves the best interest of the hotel. They also help to create a quantifiable and contractually supported index of success for the outlet. It is common for these management contracts to include minimum performance clauses, both for the restaurant and for the hotel. For example, if a hotel is not able to maintain a pre-determined occupancy percentage, the restaurant operator may be allowed to exit the agreement without a penalty.

There are many potential upsides to entering into a third party management partnership for a hotel operator. One of the most significant and widely recognized benefits of this type of engagement scenario is the opportunity to bring in a third party that has brand and marketing appeal (Strate & Rappole, 1997). This brand power can drive business through expanded appeal and a larger customer as well as by leveraging the property's existing reputation. This benefit is most successful when the hotel operator pursues a restaurant operator with similar core values and appeal in terms of demographics, philosophies, and positioning. Partnership with a third party can also provide significant press worthy marketing opportunities and depending on the size of the restaurant operator's organization, additional marketing, promotion, and PR resources for the property (Boo & Mattila (2002). One of the strongest advantages of a third party management partnership is also the quality of managerial and line-level talent that a top tier

operator can attract (Strate & Rappole, 1997). There exists a wide range of restaurant employees, and the tendency is for the cream to float to the top. Therefore, a well-branded operator can be an excellent recruiting and development tool. Additionally, this type of scenario provides a powerful brand differentiation within the hotel, where the restaurant represents an associated but independent experience, giving a guest or consumer and almost “two for one” mentality, and allowing the hotel to offer their food and beverage as a value add versus an amenity. This holds true in the other engagement scenarios as well, but is often best represented in this scenario.

There are some downsides to operating with a third party management contract. The biggest is that this situation provides exposure to the hotel as a partner in the restaurant, both in terms of financial risk and managerial risk (Rossant, 2004). Since the employees of the restaurant are typically employees of the hotel but are managed by the restaurant team, the hotel assumes the risk of any mismanagement. Additionally, there can be a lack of efficiency if there are other food and beverage outlets at the property, but there is no cross-utilization programmed in. Without any cross-utilization, a third party management contract results in running two parallel systems, which can be very costly. One of the biggest downsides to this scenario is that the hotel is obligated to pay a management fee off of gross revenue even if the operator experiences a loss. While there is usually a clause that allows for the termination of the agreement in this scenario, there is ordinarily a period in which the fees must be distributed (Eyster & Goldman, 1992).

**Internally Run.** When an operator chooses to run food and beverage outlets internally, it most directly represents the “make” scenario. This scenario refers to any situation where the property’s operator runs a given food and beverage outlet. This approach can be extremely beneficial to an operator, if it is able to properly conceptualize and execute outlets in a way that it is both competitive and popular (Olsen & West, 1990). In the past, this has been one of, if not the most common scenario, with hotel operators focusing on creating restaurants that are able to serve as amenities, rather than profit centers or demand generators (Eyster & Goldman, 1992).

To better understand this type of engagement scenario, it is important to examine the typical organizational structure of an operator that runs its food and beverage internally, as well as the pros and cons of this approach.

Internally run outlets are typically the responsibility of a food and beverage director, who reports directly to the general manager of a property. In this scenario, all restaurant staff is on payroll as employees of the hotel. Additionally, all restaurant management would report directly to the property's food and beverage director and/or hotel manager. In most internally run scenarios, the restaurant concepts are also generated internally, either at a property level, or by a corporate food and beverage team. Furthermore, all decisions in regards to the marketing, positioning, and direction of the restaurant are determined in the context of the greater hotel or property, and are subsequently made by the operator, not necessarily the food and beverage team. All purchasing, receiving, financial controls and ancillary support regarding the restaurant come directly from the hotel's internal staff and management teams. These types of restaurants inherently operate within the confines and standards of the given brand or operator, which has a sizeable impact on their conceptual development, positioning, offerings, and ambiance. Theoretically, an outlet developed by and run by the hotel's operator should be completely synced with the mission and positioning of the hotel. However, given that rooms are the main focus of the majority of hotel operators, it can prove to be difficult to successfully align food and beverage with the mission and positioning of the hotel (Eyster & Goldman, 1992).

There are many upsides for an operator who decides to run food and beverage internally, if they possess the competencies required to do so effectively. The most obvious and important benefit of running food and beverage outlets internally is the ability of the operator to realize any and all financial upsides. The operator is also able to maintain full control of all conceptual and managerial decision making (Olsen & West, 1990). To an extent, this ensures that the outlet functions in line with the strategy for the greater property. It also gives the operator direct control over the ability to adjust the restaurant's concept and operating hours based on the needs and

demands of the guest. The author regularly sees conflicts between hotel operators and third party restaurant operators over hours of operation, especially during breakfast/brunch meal periods.

Internally run outlets also allow for direct access to financial documents, and control over fiscal performance (Parsa et al., 2005). If there are issues in regards to ordering, costing, pricing, or revenue, the operator is in a position to directly deal with these issues. Additionally, the relevant financial information is easily accessible to upper management and can be incorporated into the property's general strategy. It is important to note that in order to best manage internally run food and beverage outlets operators should have a distinct profit and loss document for each individual revenue center, rather than run a departmental profit and loss statement (J. Lapin, personal communication, March 24, 2012). This allows for more precise and effective reviewing of performance. Beyond access to financial information and direct control over financial performance, internally run outlets allow the operator direct influence over a given restaurant's personnel and staff. This ensures that employees of the restaurant are held to the same standards as hotel workers, and also on-boarded in a somewhat parallel fashion to other hotel employees, theoretically allowing for the creation of some common culture (Guillet & Tasci, 2010). This engagement scenario also gives operators the ability to create synergy and efficiencies throughout the food and beverage department as well as the property. This can result in significant revenue upside for the property if managed properly, and also help effectively position the given restaurant or outlet.

While there are many positives to running restaurants internally, there are also many negatives. As previously stated, many of the positives offered by internally run outlets, especially financial upsides, are contingent on the ability to competently program and operate restaurants. Furthermore, easy access to conceptual adjustments, operational adjustments, and financial adjustments by a property's management team and other departments can have a profoundly negative impact on a restaurant (Parsa et al., 2005). All too often, the author has seen restaurants that are controlled either by committee, which is ineffective and frustrating, or by the whim of a



GM or owner, which often results in disjointed and poorly conceived outlets. Furthermore, the typical finances of a restaurant, even a successful one, can be at odds with what an accountant would expect and subjecting a restaurant to either stringent cost guidelines or rigid corporate accounting systems can greatly restrict their ability to succeed, especially if those dictating the guidelines do not have a familiarity with the unique operational needs of restaurants (Parsa et al., 2005). Craig Claiborne complained of this in his previously mentioned *Times* piece in 1959, as he saw the controller, and “efficiency experts” murdering the quality and experience of hotel restaurants for the sake of profitability. Internally run outlets also deprive a property of the significant co-branding opportunities presented through “buying” food and beverage operations. Consumers are brand sensitive, and name branded restaurant options, whether through a chain or a chef, appeal to consumers (Kanter, 2000). They also present significant opportunities for a hotel brand to enhance their position and broaden their appeal. Internally run outlets rarely are able to offer similar results. Furthermore, by developing and operating internal outlets, an operator does not have the ability to target new demographics and customers in the way a branded restaurant can.

## **CHAPTER 4**

### **METHODOLOGY**

#### **Overview**

In order to establish the 5 Cs as a framework for considering the complex and multidimensional problem of whether to “make” or “buy” food and beverage programming in a hotel, the author conducted semi-structured in-depth interviews with industry experts. The experts represented two key demographics for this issue: (1) hoteliers and (2) restaurateurs. The pool of subjects covered multiple facets of each of these populations, including ownership, asset management, developers, corporate leadership, boutique operators, independent chefs, celebrity chefs, hotel chefs, and multi-unit restaurateurs. The subjects were contacted through personal relationships and the author’s extensive professional recommendations.

Both the author and a trained interviewer conducted the semi-structured interviews. Each interview lasted 45 minutes to one hour. All interviews were recorded and transcribed verbatim.

#### **Interviews**

The goal of the hotelier interviews was to provide insight into how hoteliers decided whether or not to “make or buy” food and beverage programming. The goal from the restaurateurs’ interviews was to determine what factors they considered when deciding whether or not to open their restaurant in a hotel. As listed in Table 1, a total of 17 participants were interviewed – seven hoteliers and ten restaurateurs. The pool of recipients represents the senior management of international hotel and restaurant groups and offers an unparalleled insight into the issue of hotel food and beverage programming. Although the number of participants is relatively small, collectively this group represents over 100 international hotel, resort, and casino properties and over 100 restaurants; many that are critically acclaimed and highly regarded.

The interviews were conducted in a way that encouraged and allowed for the author and respondents to depart from the questionnaire, developing texture and necessary variance in responses. Ultimately, the interview process was designed to provide insight into whether the 5 Cs framework is still applicable when approaching the questions of whether a hotel should make or buy its food and beverage operations. Specifically, the interviews were used to establish and understand the decision making process and methodology of current industry leaders. The author intends to contrast the key decision making factors and established methodology of these experts against the 5 Cs in order to pertain their ongoing relevance and accuracy.

The data collected through the interviews will work in concert with the author's academic and historic research, as well as the research conducted and information collected over a 25 year career in hospitality. Integral to this paper are the experiences of the author's unique and unparalleled first-hand operational, development, managerial, ownership, and consulting insights into the question of whether to make or buy.

## **Table 1: Participants**

The list below outlines the subjects to whom the questionnaires were delivered.

### **Hoteliers**

- Sebastien Silvestri – *VP Food & Beverage, Venetian Palazzo*
- Steve Weitman – *SVP Food & Beverage, Wynn Resorts*
- Scott Menke – *President, Paragon Gaming*
- Christopher Norton – *EVP, Global Products and Operations, Four Seasons*
- Stan Bromley – *President, BPIS*
- Constantine Dimas – *VP Food & Beverage, Loews Hotels*
- Raul Leal – *CEO, Virgin Hotels*

### **Restaurateurs**

- Joe Essa – *President, Wolfgang Puck Worldwide*
- Jason Lapin – *President, Blau & Associates*
- Andy Masi – *CEO, The Light Group*
- Kevin Stuessi – *COO, Starr Restaurants*
- Bruce Bromberg – *Celebrity Chef, Blue Ribbon Restaurants*
- William Anton – *CEO, Anton Enterprises*
- Larry Forgione – *Culinary Director, American Food, CIA*
- Michael Mina – *Celebrity Chef, Mina Group*
- Charlie Palmer – *Celebrity Chef and Hotelier*
- Brett Traussi – *COO, Dinex Group*

## **The Questionnaire**

The questionnaire was designed to succinctly elicit responses regarding the process of determining food and beverage programming in a hotel, and the benefits of well programmed food and beverage in a hotel. It is intended to highlight the variances in approaches, philosophies, and skill sets between hotel operators and restaurant operators, as well as the natural alliances between these two groups. By utilizing this approach, the author was able to add an element of consistency to the responses elicited from the subjects, providing a mechanism by which to analyze the results.

The questionnaire was developed based on upon previous research on the 5 Cs and designed to focus on the factors surrounding the make or buy dilemma for the two groups of subjects. It was also designed to address general philosophy about hospitality and the role of food and beverage in the upper upscale, luxury, and boutique hotel experiences.

Each set of questions was modified slightly to consider the expertise and perspective of the two groups of recipients. While there is significant overlap between the two sets of questions, the author adjusted their tone and perspective to capture both sides of the dilemma. On one hand, the hoteliers are focused on whether or not to make or buy, and how that will impact their brand and operations. On the other hand is the restaurateurs' perception of whether hoteliers should make or buy, and their experience entering into the "buy" scenario.

The questionnaire was designed not to explicitly address the 5 Cs but rather focus on the reasoning that goes into the "make or buy" decision for each of the subjects. For hoteliers this mainly focuses on whether to outsource the operations through a partnership or to proceed internally. The author was also interested in assessing the subjects' understanding and thought process on the key factors in making these decisions and perceived impact on performance and the relevant hotel brands. The two questionnaire versions are included in Table 2 (hoteliers) and Table 3 (restaurateurs) on the next two pages.

**Table 2: Hotelier Questionnaire**

1. In your experience, what are some key components that make an upscale or luxury hotel competitive? Of those you listed, what are the three most important and why?
2. On a scale of 1 – 10, how important do you feel that high quality food and beverage is to an upscale or luxury hotel experience?
3. Which types of restaurants are hoteliers most competent at operating? Why do you say this?
4. How do you determine the type of food and beverage operations to put into your hotel? Why do you use this methodology?
5. What is your view on having a third party operate a hotel's food and beverage? Can you think of two to three advantages or disadvantages of having a third party?
6. Do you feel that it is cost effective or ineffective for a hotel to engage a third party operator for a restaurant?
7. Overall, do you think that being affiliated with a specific restaurant brand or chef give a hotel a competitive advantage over properties that operate their F&B internally?
8. What advantages or disadvantages do you think a restaurant would have over independent operators if they have affiliation with a hotel brand?

**Table 3: Restaurateur Questionnaire**

1. How important do you feel that high quality food and beverage is to an upper upscale or luxury hotel experience?
2. Do you think that hotel operators can be competent restaurant operators? Please provide examples of those who do it well and those who do it poorly?
3. What kind of processes did you use in the decision to be affiliated with a hotel? What are the factors that inform this process? Please rank order the list from most important to least important.
4. What is your view on having a third party operate a hotel's food and beverage? What are the advantages? What are the disadvantages?
5. Do you feel that it is cost effective or ineffective for a hotel to engage a third party operator for a restaurant?
6. Overall, do you think that being affiliated with a specific restaurant brand or chef gives a hotel a competitive advantage over properties that operate their outlets internally?
7. What advantages or disadvantages do you think a hotel brand that has a third party restaurant operator would have over properties that operate their F&B internally?
8. How do you determine whether or not to open one of your brands in a hotel?

## **CHAPTER 5**

### **RESULTS**

#### **Overview**

Overall the research was successful in providing insight into the framework hoteliers and restaurateurs use when considering the “make or buy” dilemma for hotel food and beverage operations. While the 5 Cs were not explicitly mentioned or outlined in their entirety by the respondents, the key components of many of them were visible as themes in both the hoteliers’ and restaurateurs’ consideration of the “make or buy” dilemma. It is apparent from the research that elements of the 5 Cs are indeed part of the process by which the concerned parties approach the decision to the “make or buy” dilemma; but they are not the only part.

The research also highlighted the complex and individual nature of these decisions. Features included in the decision to “make” or “buy” were (1) the brand, (2) the personalities of the decision makers, and (3) the locations of each property.

The findings of the questionnaires are outlined in the following section. The response to each question is summarized and analyzed for both sets of participants. Then both sets of answers are combined to identify larger themes across the entire pool of subjects. The goal of this is to identify key themes and factors that shape and influence the methodology of this group of experts, to be compared against the framework outlined by the author in the 5 Cs.



## Findings

### Hoteliers

**1. In your experience, what are some key components that make an upscale or luxury hotel competitive? Of those you listed, what are the three most important and why?**

The subjects had a diverse range of thoughts in terms of the key components that make an upscale or luxury hotel competitive. As a whole, the consensus was that “the experience” as a complete entity was the most important. When probed on what defined “the experience” the majority of the subjects stated that service was a de facto representation of experience. Other responses included:

- “One is recognition and [the other is] service.”
- “I think my top three are ... the environment, the service, and the product [e.g. the food, beverage, retail offering], whatever encompasses the hotel experience.”
- “Customer service -- that makes up for everything.”

Another interesting theme was the importance of evolution and upkeep: that is, maintaining relevance. This includes technology, as well as upkeep of the physical plant. For example, one of the subjects responded:

- “Physical plant, obviously customer service, and vision of ownership to always be evolving the experience. Changing with technology, changing with different times, changing with people’s different senses... Everything has to evolve.”

These comments also point to the importance of leadership and vision; which was not discussed by any other subjects, but is an important root of the theme of overall experience and service.

Surprisingly, value was mentioned by only one person. This is most likely due to the focus on the upper upscale and luxury segment. Additionally, food and beverage as an explicit

key component was not mentioned by any of the subjects, although it was alluded to in several of their answers, in regards to evolution, experience, and service.

Design was alluded to by several of the subjects, and focused on by one in particular. The impact of the design on the guest experience, and the comfort of the guest as a product of design were peripheral components, but near top of mind for the subjects.

**2. On a scale of 1 – 10, how important do you feel that high quality food and beverage is to an upscale or luxury hotel experience?**

Unfortunately, the majority of the subjects did not respond to this question with a number or score, but rather with a broad sense of the importance of food and beverage. Three of the recipients did respond with a number, all of them assigning a 10 to the importance of food and beverage. Some of the rationale they provided for their score was:

- “I think it’s a 10... on the food and beverage end, everybody wants a good food and beverage experience. Not just the younger, the middle class, or the older class, or whatever. Everybody wants a great food and beverage experience.”
- “I think it’s one of those experiences that can either leave a guest with no additive experience or leave it where they had a great experience.”
- “High quality food and beverage is expected, so even one more than that, that’s my point. The food can only be great. It’s going to have to be an experience. It’s going to have to be the right vibe or trend.”

Again, many of the subjects spoke to the impact of the food and beverage on the “experience.” The “experience” is the guest’s overall interaction with the brand and the property, their perception of the entire stay, and food and beverage is heavily implied to be a key aspect of this. The majority of the respondents, even if they did not assign a value to the food and beverage quotient, felt it was important, and regularly referenced it when describing the “experience.”

However, some of the subjects either did not feel that it was important or that it was ancillary, and its importance was defined by other factors. For example, one of the subjects responded:

- “If I was going to list the top 5 things, it would not be one of them.”

Additionally, another respondent spoke to the importance of the quality of the food and beverage, an independent notion than the importance of the food and beverage itself. This subject felt that the most important components of food and beverage in the context of a hotel were also not necessarily related to the restaurants, but rather the core competencies of the operators: room service, bar, and meetings and conventions. As the subject explained:

- “I think the quality side of it is very important. The quality side of it, and you’ll see it now whether it’s crafted beers or a more very refined drink menus, and the better scotches and the better wines. I think that’s again a part of the high focus on that F&B industry, I think the hotels really have to focus on 3 or 4 things and that’s: quality room service, quality bar experience, and really their meetings and conventions and stuff.”

However, the majority of the recipients felt that food and beverage was important and played a key role in defining the expectations and the experiences of guests at the upper upscale and luxury level. As one respondent said:

- “It would make no sense to try to build a luxury property and not have the restaurants be synonymous with the same experience.”

### **3. Which types of restaurants are hoteliers most competent at operating? Why do you say this?**

This question met with a diverse array of qualified answers from the subjects. No clear consensus arose to which types of restaurants hoteliers are most competent at operating because it was dependent on what segment was being discussed. Several of the subjects referenced

specific brands and segments in relationship to their answer. For example, one subject responded:

- “If you travel with the chains like Four Seasons or Ritz Carlton, you expect to see the coffee shop and they’ll be serving our breakfast, and they know how to do that.”

However, another subject referenced broader upscale legacy brands in saying that the majority of their food and beverage product is “mediocre,” and referencing the inconsistency even in the independent and boutique worlds.

- “Well it’s definitely not high end. First of all, the general response would be I don’t think hoteliers are comfortable operating most food and beverage.”

This same subject went on to highlight the effort and programming involved in operating successful restaurants, specifically referencing some of the factors in conducting these operations. More to the point, the subject referenced the association between building and operating a restaurant for hoteliers, specifically stating:

- “Where a lot of hoteliers miss it is they think that they have a great design. They just designed a restaurant and hired a pretty good chef or whatever. They think that people are going to come there. They don’t realize that there’s an effort behind the scenes of Public Relations, Social media, and continue programming and deliverance happens.”

The subject was alluding to the fact that the success of operations is really dependent on the type of hotelier, or even down to the specific hotelier. As another subject put it:

- “I guess my question from that one would be when you say hoteliers; it would all depend on the specific group and what they’re operating experience would be. So when you say types of restaurants or hoteliers, it would depend on the group.”

Overall, the implied need for context and caveats makes it difficult to arrive at a cohesive opinion in regards to the types of restaurants most hoteliers are competent at operating. However,

there was an interesting subtext that emerged discussing the types of hoteliers that are competent restaurant operators. This is an opportunity for additional discussion and exploration outside of the context of this paper.

One participant did address the specific types of food and beverage operations that hoteliers succeed at, referencing those most core to their ADR and occupancy rates: meetings and conventions. While these operations fall out of the realm of the signature restaurants that are the focus of this research, they subject offered valuable and interesting insight into this operational competency stating:

- “Hoteliers are competent at operating their meetings and convention services. I think that’s because of its consistency. A good hotelier, your best rate, when your best business comes, [it’s] off of your meetings and conventions business.”

#### **4. How do you determine the type of food and beverage operations to put into your hotel? Why do you use this methodology?**

This question did not elicit an explicit reference to a specific methodology in all of the participants. However, it did develop an interesting set of narratives into the factors that hoteliers consider when programming their food and beverage. The most dominant theme to emerge was that of demographics and guest profiles. Several of the respondents directly referenced guest demographics, community, and competitive set.

- “Your customers certainly have to be a part of it, but you have to know your community to understand the competitive set, how can you win over that competitive set, and most importantly I think it’s very important to engage the local customers especially when it comes to a F&B experience.”
- “...I think the first thing you need to look at is the demography [sic]. Who are your customers? When you know your customers then you can develop concepts that fit your demography... It really depends about who are your customers?”

What do they like? That applies to everybody – from a 300 room hotel to a 10,000 room hotel.”

- “We look at it from a 360 degree view... to make sure that we design from a couple of different vantage points: one from a pricing standpoint, we like to offer everything from quick service all the way to full service, and then in types of cuisine. Are we meeting the demands of our demographics in terms of where they are coming from around the world?”

The final response in the above section also speaks to the robust consideration of the impact of food and beverage on the guest experience. Although implied more so than explicitly mentioned, price point, variety of concept, and consideration of guest perception and wants are all important components of the methodology for all of the respondents. While there was some variation in the methodology of selecting these operations, the ultimate justification was the impact on the guest experience and appealing to the market and the wants of the guests.

There is an overall awareness of guest preference driving the design and programming of the food and beverage, rather than food and beverage being designed to suit the needs of simply the hotel, both in terms of performance and concept.

**5. What is your view on having a third party operate a hotel’s food and beverage? Can you think of two to three advantages or disadvantages of having a third party?**

As a whole the participants were welcoming to the idea of having a third party operate a hotel’s food and beverage. The concept was widely accepted by all the participants as a viable option for hotel operators. The majority of the participants currently use third party operators in their operations, and all have had direct experience with this side of the “make” or “buy” dilemma. The advantages and disadvantages varied some between the participants, but there were several common themes that stood out in particular.

The first common was the visibility and expanded customer base offered the third party operators and the benefits of the shared brand equity.

- “Immediately what it does is it sets you [apart] – it puts you in a place in the community where it says ok there’s a viable F&B operation... that gives you exposure you [otherwise] wouldn’t garner.”
- “If it’s the right third party operator, which has a following and a reputation, it can certainly bring you immediate customer recognition overnight.”
- “The simple answer is I would look to the outside if it was a city where it would enhance the name of the hotel.”
- “So you have a lot of very solid restaurateurs out there, and it makes total sense to partner with them because you can benefit from their brand and then you can brand the restaurants, which is, today, a very important thing.”

In addition to the visibility and branding offered by third party operators, most of the participants recognized the potential competencies, expertise, and support offered by a third party as an additional benefit.

- “They typically have well oiled machines on how to set and execute these business plans, so you’re really looking at more depth than just going out and hiring a great chef or a great manager... There’s kind of a lot resting in hiring one or two people to open and operate it ourselves versus if you go out and third party it, they typically aren’t going to let it fail.”
- “I think it depends on the operators themselves in terms of whether they have the core competency themselves to operate food and beverage.”

In terms of disadvantages, there was an overall consensus that there were challenges to hosting two operators, and two cultures, within a single hotel. Additionally, the disadvantage of a lack of control was brought up by several of the respondents.

- “There’s always this tension between the two parties that, especially when disputes come along, it can be very difficult.”
- “You have less control. The ownership of the company has less control. In times of conflict sometimes the relationship can get a little bit sour.”
- “Downside is you lose a lot of control.”

One of the key considerations that was brought up in this question, while not directly an advantage or disadvantage, was the labor required to operate food and beverage well. This was addressed from a couple of different perspectives. Relative to the previously outlined advantages, one point was that in an internal operation, you are at times limited to a few individuals within the context of a larger and more diverse organization, with multiple focuses, this was contrasted to the support a third party operator that provides. Additionally, it is an investment for the operator, and if it is not a core competency can be a significant one. Another consideration in regards to labor was the compensation and potential savings for the hotelier, with several respondents referencing the fact that the hotel and restaurants can compensate at different levels, which can be a challenge for both parties.

**6. Do you feel that it is cost effective or ineffective for a hotel to engage a third party operator for a restaurant?**

The majority of the respondents agreed that, under the right set of circumstances, outsourcing food and beverage operations was cost effective. The responses varied from fully committed, to somewhat qualified, but still in favor of it being an effective decision.

- “It’s very effective and it’s easy to under write, especially if it’s somebody who has a name and a following and has done it before. Again, if they can deliver on the consumer touch points that the hotel needs... then I think it’s very effective for a certain independent owner, and even branded hotels whose expertise is not in F&B, to outsource it.



- “Cost effective. 100%”
- “First of all, you get that surge of a lot of money being spent because it’s the owner’s idea and therefore they’re going to make it right. Number two would be it makes a hotel more active, out-there kind of a business, not just a hotel restaurant or the dining room. So for those two reasons for sure.”
- “If done correctly, I think it can be cost effective. If they’re looking to keep their capital investment down, bringing in a third party to potentially lease would be [a way to do that.]”

Included in these responses were some additional insights into the benefits of third party food and beverage insights. There was reference to lease versus partnership in the effectiveness of the option, citing the ability to reduce capital expenditures through the lease option. Additionally, the benefit of additional activation, visibility, and an improved guest experience was referenced in the factors that make it cost effective. Having an active, desirable, signature restaurant at a hotel is perceived as being a beneficial and valuable programming component relative to a “dining room” or “hotel restaurant.”

**7. Overall, do you think that being affiliated with a specific restaurant brand or chef gives a hotel a competitive advantage over properties that operate their F&B internally?**

Again, the general consensus of the respondents was that yes, overall, an affiliation with a specific restaurant brand or chef provides a competitive advantage for a hotel. The responses for exactly why it was an advantage varied from a more clearly communicated quality offering, sales and marketing differentiator, and an additional operational competency.

All of the respondents recognized the potential advantage, but all of the answers were also qualified with an implication that the advantages were only realized if it was a successful partnership.

- “Oh yeah. I think that [it is] an advantage, if it’s done right.”

- “I guess the answer is yes, but then it’s if you pick the right partner.”
- “There’s no doubt about it. If you can manage the internal relationships.”

One advantage addressed by respondents was the opinion that with an outside brand or third party operator, the value proposition and concept could be more clearly articulated to the guest, a benefit for attracting more traffic to the property. As one respondent phrased it:

- “Having a celebrity chef restaurant resonates quality for the customer. It means it will probably be a more expensive experience than the generic restaurant, but they know they will have a better experience... Quality assurance for the customer.”
- “For the type of guest, I think it cuts down on trying to figure out what type of cuisine.”
- Additionally, it was seen by some as an opportunity to generate buzz and differentiate the offering from a marketing and sales perspective, especially if it is a property
- “A little known hotel that is opening up somewhere and you need more than just the hotel because you want to create that buzz and that flash, it absolutely brings something to the table.”
- “It’s an advantage to the sales department being able to offer a different experience within the hotel.”
- “You can capitalize on dining and drive suite nights, traffic in the casino floor, through your property PR, etc. So it’s definitely a big win.”

#### **8. What advantages or disadvantages do you think a restaurant would have over independent operators if they have affiliation with a hotel brand?**

This question elicited somewhat inconsistent answers from the respondents and very few of them directly answered the question. The underlying theme was that it depended on both parties, and that there were many factors to consider in both scenarios. However, in addressing

this, many of the respondents spoke to the need for brand parity and synergy to be present in order for there to be an advantage.

- “They [restaurateurs] have to understand the legacy of the brand that they’re about to be partners with, and the impact that it has on their own legacy.”
- “There has to be some synergies between the two brands.”

Overall, the majority of the respondents felt that there was a potential advantage, and a bad relationship could certainly be a disadvantage, but that the advantage was not necessarily significant or of particular importance to the hotelier respondents.

### **Restaurateurs**

#### **1. In your experience, what are some key components that make a hotel restaurant competitive? Of those you listed, which are the three most important?**

All but one of the respondents provided a similar response for the first component that makes a hotel restaurant competitive: it must have an appeal that extends beyond the hotel guest to the local market. The restaurant needs to have a concept, offering and service experience that competes with the stand alone restaurants in its market:

- “...The restaurant has to be one of the best restaurants in the city not just in the hotel within a certain demographic.”
- “I think it needs to be a current concept, that is has to appeal to the local population much more than it has to serve the needs of guests”

Appealing to the hotel guests and being cohesive with the property of the brand is important, yet the restaurant has to go above and beyond these two basic functions of a hotel restaurant to be competitive in their market. As some of the respondents noted, sometimes being part of a hotel can hinder a restaurants success and become a hurdle that needs to be overcome. Due to the lack of brand equity and restraints of the hotel’s brand standards, hotel restaurants have to ensure they have a “current and well articulated food platform”, design and décor, and

service delivery that attract the larger market. The importance of strong leadership was also a common theme throughout the subject's responses. Individuals in the management roles within the restaurant should have a Food and Beverage understanding.

- "...Pretty much the only time you see really good hotel/retail destination type restaurants that are really successful is when that particular hotelier, that general manager, came out of F&B himself or they have an exceptionally strong F&B manager."

The responses all allude to the idea that for a hotel restaurant to be truly successful, it has to be approached as a stand-alone restaurant. It needs to have a concept and decor that appeals to both its local market and guest, strong leadership, and be financially viable.

## **2. How important do you feel that high quality food and beverage is to an upper upscale or luxury hotel experience?**

High quality food and beverage is very important to an upper upscale or luxury hotel experience according to all of the respondents. "Extremely", "critical", and "most important" were some of the first responses to the questions. When the respondents went into greater detail as to why the food and beverage was so important, a key theme that emerged is the opportunity for the food and beverage experience to be used as a differentiator in overall experience for the hotel.

- "There's only so much you can offer with the room product outside of square footage... I think a restaurant, or food and beverage program really gives a hotel the opportunity to enhance its brand proposition, but also to enhance the guest experience in a very tactile way..."

The food and beverage component is a key piece of the guest experience, thus it needs to be high quality to fit in with the offerings of these types of properties.

**3. Do you think that hotel operators can be competent restaurant operators? Please provide examples of those who do it well and those who do it poorly?**

The answers to this questions covered the full spectrum of options; most of the respondents said it was possible, one respondent replied that it was not possible, and another stated “every once in awhile”. The reasoning given for these responses alluded back to the responses given on the first interview question. Several respondents stated that hotel operators can be competent restaurant operators when the approach the restaurant with the mindset of someone operating a stand-alone restaurant.

- “I think the ones that do it well are the ones that kind of take a mindset of ‘we’re going to treat the restaurant like their separate company within the hotel.’ Almost like Kimpton did in the past.”

Kimpton Hotels was given as an example of a hotel company that does operate their restaurants well by three of the respondents. The company is structured as two companies within itself: a hotel company and a restaurant company.

Additional reasons for success given by the respondents include putting strong leaders with a food and beverage background in place and creating restaurants that speak to the local market. Again, these responses are very similar to the key components of successful hotel restaurants provided in the first interview question.

Examples of hotel operators that are competent restaurant operators given by the subjects include Kimpton, Wynn, and Mandarin Oriental. Hotel companies that do this poorly include “standard US chain hotels,” Marriott, and “...ones that try to replicate, for the sake of consistency, a dining experience that is consistent across all markets.” The common thread amongst the examples of hotel companies that do this poorly is an emphasis on consistency over local inspiration in the restaurant concept and leadership. When a hotel company creates “cookie-cutter” food and beverage programs across all of their properties, they are no longer

creating concepts that appeal the market of the property and operating the restaurant in a way that enables its success.

**4. What kind of processes did you use in the decision to be affiliated with a hotel?  
What are the factors that inform this process? Please rank order the list from most important to least important.**

It appeared difficult for the respondents to articulate and rank the order of processes used in the decision to be affiliated with a hotel. The location and market of the hotel did come up in several responses. The market needs to be one where a certain chef or restaurant concept is appealing and has the potential to generate revenue. Related to this idea was the process of ensuring that the brand of the hotel is aligned with the restaurant company. The restaurant has to make sense as part of the hotel. This alignment goes beyond just concept; the goals of the restaurant and hotel need to be aligned, the management and operations need to be on the same page, and the internal infrastructure of the two operators needs to have the ability to be aligned to a common goal. If all of these factors are aligned, then bringing in an outside restaurant operator into the hotel can be a mutually beneficial partnership.

- “I think it’s a win-win for both parties.”
- “...It’s still the reality of it is when you’re brought in from the outside, if you can bring a good brand with you, you’re always going to help that restaurant do more business than it would have done on its own.”

The processes for this decision-making are clearly not black and white and it seems that often the decision is driven by situation specific factors. But all the respondents agree that understanding the hotel partner’s wants and needs and aligning those goals and the brand, along with ensuring that there is a potential to generate revenue through the partnership are important processes in this decision making.

**5. What is your view on having a third party operate a hotel's food and beverage? What are the advantages? What are the disadvantages?**

The respondents provided many ways a third party can be an advantage in operating a hotel's food and beverage. The level of expertise and knowledge a third party brings is a significant advantage in operating the hotel restaurant. The third party's entire focus is on ensuring the success of that restaurant, which can be a huge asset for a hotel operator who has so many facets of the property to simultaneously manage.

- "Typically, you get a much better operator because it is their complete focus."
- "The hotel or hotel and casino get to stay very focused on what they do and then the restaurant operator brings a completely different skill set."

In basic terms, if the hotel chooses a third party partner with a proven track record, they can be confident that the restaurant will be run well, have a concept that appeals to the clientele outside just hotel guests, and have a certain level of recognition above that of an internally run hotel restaurant.

The disadvantages outlined by the respondents speak to the challenges of the partnership between the hotel and third party. Operating a restaurant within a hotel is inherently different than operating a stand-alone restaurant. The hotel management will have an influence on the restaurant standards, decision-making process, and culture, which creates challenges for the third party operator.

- "You have an opportunity for a bad relationship where you have a third party who knows how to operate their own restaurant, but doesn't necessarily know how to operate within an infrastructure, that doesn't necessarily understand the culture of the hotel, that doesn't necessarily understand the guest needs or the hotel's desires to fulfill the guest expectation."

Having the right third party partner is therefore essential to the success of the restaurant. If the goals, brand, and visions of the hotel company and third party operator are not aligned, then the partnership can be doomed.

**6. Do you feel that it is cost effective or ineffective for a hotel to engage a third party operator for a restaurant?**

The respondents all point out the fact that how cost effective this partnership can be is heavily influenced by situation specific factors. The specific third party operator chosen can influence how cost effective this relationship is. If the operator can build a successful restaurant and operate it effectively, then having them in place will be cost effective for the hotel.

- “It’s cost effective always when the operator can drive revenue and knows how to control costs.”

This idea, that is important that the third party operator knows how to control costs, came up in several respondents’ answers. If the third party operator is driven and incentivized to control costs, “drive revenue, and drive profitability” then the relationship can be cost effective for the hotel. Having the goals of the two parties aligned again can be crucial to the success of the partnership.

A third party operator can also be cost effective for the hotel in less tangible ways. A third party restaurant can bring value to the hotel brand, bring something to the hotel marketing, and help attract guests.

**7. Overall, do you think that being affiliated with a specific restaurant brand or chef gives a hotel a competitive advantage over properties that operate their outlets internally?**

The overwhelming answer to this question was yes; however, the majority of the respondents mentioned that is largely influenced by the specific operator, hotel, and other



situational factors. When the respondents went into greater details as to why this affiliation is a competitive advantage, they all mentioned that a well-known restaurant brand or chef could be a draw for guests.

“I think the easiest way to break it down is you know for sure if you bring in an outside operator and it’s a person that obviously has a draw, then you’re going to open more attention.”

The attention these established restaurant brands and chef bring to a hotel can attract hotel guests, the local market and attention of the press. All of these factors are an advantage to the hotel in that the restaurant can become a profit center.

**8. What advantages or disadvantages do you think a hotel brand that has a third party restaurant operator would have over properties that operate their F&B internally?**

Similar to the responses on previous questions, the respondents mentioned that the added value a recognized restaurant or chef can bring to the hotel brand is a significant advantage of the third party restaurant operator. The high level of brand equity of these third party operators can help elevate the brand of the hotel in the guest’s minds and attract media attention to the hotel.

- “The advantage to the hotel brand is that they have this sort of independent identity that is above and beyond or outside of their own ability.”

The respondents also noted the level of expertise a third party operator can bring as an advantage of this relationship. The third party operator is solely focused on the restaurant and brings a high level of skill and knowledge about food and beverage operations above what many hotel operators possess.

There was a greater range in disadvantages a hotel brand with a third party restaurant operator has over its competitors provided by the respondents. Some mentioned the lack of control that comes with an external party operating the restaurant as a disadvantage to the hotel. A few of the respondents also spoke to situation specific factors such as the structure of the deal

between the third party restaurant operator and hotel company, the specific partner chosen, and the differing goals of the parties.

**9. How do you determine whether or not to open one of your brands in a hotel?**

The majority of the respondents went into great detail of how important this decision making process is. In order to make this sort of decision, the restaurateur needs to obtain as much information as possible on the hotel, market, management, and location. The fit between the brand of the hotel and restaurant is extremely important. This alignment is crucial since it will be a long-term relationship and both parties have a lot at stake in the relationship. The respondents mention that it is important to have mutually shared goals for the partnership as well as passion for the success of the restaurant.

The location of the hotel was also mentioned in several of the respondent's answers. The location of the hotel influences what type of restaurant will work, what the target market will be, and what type of staff are available. The restaurateur has to be able to create a restaurant that fits in this location and has the opportunity for success.

## **CHAPTER 6**

### **CONCLUSION**

#### **Results**

The goal of the in-depth interview was to find common methodologies and approaches to the “make” versus “buy” dilemma among a field of proven experts in the industry who have considered this dilemma on many occasions and in a variety of circumstances. The questionnaire succeeded in creating a detailed dialogue on some of the key factors and considerations that go into programming food and beverage in an upper upscale, luxury, or boutique hotel.

Unsurprisingly, both set of recipients had slightly different perspectives and insights on the decision making process. The group of restaurateurs had a dramatically more favorable opinion of the impact of food and beverage on a given property. The hoteliers acknowledge the importance of food and beverage, and certainly conceded to it as potentially a key differentiating factor or driver of revenue and/or ADR.

The goal of the two groups of subjects was to highlight commonalities between them and aggregate any shared components or methodologies into a set of proven qualitative considerations for the “make” versus “buy” decision. Through the author’s analysis of the material providing by the questionnaires, a few key themes emerged.

#### **Application to the 5 Cs**

The research conducted by the author provided firsthand insight into the framework and thought processes of proven experts in the hotel and restaurant field in regards to the “make” versus “buy” dilemma. The core themes highlighted by this diverse group of participants highlighted the relevance and importance of some key components of the 5 Cs, while also illuminating some additional components not completely addressed by them.

Core Competencies, which is at the heart of the 5 Cs, was also at the heart of the research results -- underscoring its importance to the decision making process. As discussed in both the proposal of the 5 Cs and the results section, competency is a multi-faceted concept that encompasses an entire organization's ability to create and operate food and beverage outlets successfully.

Not addressed in the 5 Cs, but highlighted by the research, is the importance of understanding the market and key demographics. While the 5 Cs focus mainly on internal and organizational considerations, the profile, tastes, and need of the hotel guest and greater market are extraordinarily important in the decision whether to "make" or "buy" food and beverage operations. This is somewhat addressed in the Competition section of the 5 Cs, but not to the end or the level suggested by the research participants.

Culture, however, was seen as an important component in the decision making process, and was most directly addressed in terms of operational and brand synergies and the need for clear communication channels. Culture is often an intangible and difficult thing to address, but is at the core of the operations of both hotels and restaurants. Ultimately, in deciding whether to "make" or "buy," the operator needs to have a clear understanding of how the operator will intersect with the hotel's operations, and how the groups of employees will co-exist, as well as the brands.

Interestingly, Costs and Co-branding were not specifically addressed in any detail by the participants in the way the author anticipated. While both subjects were brought up and discussed by some of the participants, neither seemed to be at the core of any decision-making approach or considerations. Part of the reason Costs may have been excluded was that in the segment focused on, the cost associated with operations are relatively high regardless of which scenario is pursued, and the cost benefit focuses on intangibles and demand generators more directly than anticipated. There was certainly an appreciation by hotel operators for potential cost

efficiencies offered by the “buy” scenario, but they were not a major factor in their decision-making processes.

Co-branding was implied and addressed more in the context of gained core competencies and the demands of cultural and operational synergy. There was an underlying assumption by many of the participants that both sets of brands needed to be compatible, but it seemed that the co-branding component was deeply internalized in regards to choosing or approaching operators who were inherently perceived as being appropriate.

### **Additional Insights**

In particular, three additional themes emerged that the author felt were most relevant to the framework provided in the 5 Cs. These are:

- *Market/Demographics*
- *Communication/Synergy*
- *Competency*

**Market/Demographics.** While the exact phraseology surrounding this theme varied some from participant to participant and question to question, there was an underlying emphasis on understanding the market and the demographics of any given property. The guest ultimately drives the success of any concept -- internally developed, leased, or managed -- and it is imperative to understand their tastes and demands to succeed. The majority of the participants agreed on this.

Understanding the local market and demographics of a given neighborhood or city were key to developing successful food and beverage, because a successful outlet appealed to these people. This was a common theme and seen as one of the most crucial components of success, and something to be carefully considered when deciding whether to “make” or “buy.”

Additionally, understanding the wants and needs of the guest in a given property is an important consideration for any operator, third party or internal.

The importance of considering the market and targeted demographics for any operation was underscored by both groups of participants as a key consideration for the “make” versus “buy” dilemma. Market preferences, demands, and opportunities are key factors in dictating what type of food and beverage makes sense for any given operator. Secondary or tertiary markets have vastly different needs than urban cores, and this translates directly to food and beverage operations.

**Communication/Synergy.** The ability to communicate expectations and therefore create a healthy operational synergy and successful operation was addressed in some capacity by the majority of participants in both groups. The participants felt that in order for any “buy” scenario to succeed, it is necessary for the outside operator to have an understanding of the needs of the hotel, as well as for the hotel to understand the intentions of the operator. In many cases, this communication referenced the need to understand the physical parameters of the operation -- specifically in terms of in room dining, banqueting, and breakfast for the restaurateurs.

Furthermore, it suggested that a compatible culture between the two organizations created cohesive, and ideally, complementary experiences for guests of both products. The key to arriving at this conceptual and operational synergy was suggested to be communication by all parties. This theme extended to a wide variety of considerations surrounding the “make” versus “buy” dilemma, in terms of : (1) establishing and entering the parameters of any deal, (2) developing and executing a concept, and, (3) operating successfully.

**Competency.** Both groups talked about the skill set needed to operate food and beverage, and that to operate signature restaurants at a successful and competitive level in luxury, upper upscale, and boutique hotels, the operator required a core competency in food and beverage.

Competency was spoken about in broad terms, with very few of the participants directly addressing the components that made a given operator competent in food and beverage.

Generally, it was inferred that this competency needed to be organizational, not just an individual or small operations team. Hiring a talented chef or general manager, or having a good design were all agreed to not count as a competency. A competency was perceived as the ability to evaluate the market, produce a concept, and operate that concept at an acceptable level for a long-term period of time. There was an acknowledgement by some participants that a given property may perceive an acquired competency through the hiring of a talented manager or operator. However, the departure of that individual, or individuals, would often lead to a decline in quality or an adjustment in concept, signaling that this was not, in fact, an acquisition of competency, but rather just talent.

However, both groups agreed that the competency could lie in either the hotel or restaurant organization; although both groups agreed that the majority of hotel operators, including the major legacy brands, did not have a core competency in food and beverage operations. There were acknowledgements of companies that were able to successfully develop this competency, although the majority that were referenced had, in the opinion of the participants, operated food and beverage as almost an entirely independent entity.

## **In Conclusion**

Hotel operators will continue to face the difficult decision of whether to “make” or “buy” their food and beverage operations. As the impact and visibility of chef driven brands and restaurant groups continues to grow, this decision may continue to have far reaching implications for hotel operators. While each organization will need to decide on a methodology that suits their needs and circumstances, it is important for hotel operators to look at and analyze a core set of key factors in making their decisions, in order to maximize operational efficiencies and realize success.

The proposed framework of the 5 Cs (Core Competencies, Competition, Costs, Culture, and Co-branding) addresses some of the factors that decision makers and industry leaders are considering in their decisions to “make” or “buy” food and beverage outlets. Based on the research conducted by the author, there is currently no industry standard on how to approach these decisions. There are, however, key elements that are considered by both hoteliers and restaurateurs that begin to develop a framework that is in sync with some of the core components of the 5 Cs framework.

Of the 5 Cs, it appears as though Core Competencies is the most important factor to consider when a hotel operator is deciding whether to “make” or “buy” their food and beverage operations. Additionally, Core Competencies are an important factor for restaurateurs and chefs to consider when deciding whether to offer a concept or operation for the hotel to “buy.”

Additionally, Culture, the interaction of the two brands and their ability to communicate and cohabitate in a cohesive environment, has proven to be a critically important element. As the frequency of “buy” scenarios continues to increase, and both hotel and restaurant operators have more and more experience in both successful and unsuccessful scenarios, the importance of this factor also continues to increase.

The 5 Cs do not address the need to look at market demographics, tastes, and location in enough depth. This is certainly a key component of arriving at the “make” versus “buy” scenario for any operator, and may in fact be one of the most important components in making the decision at all. An understanding of the ability of the market to support a signature, celebrity, or independent restaurant is a core factor in deciding which side of the dilemma an operator should pursue. While it breaks the handy alliteration of the 5 Cs, demographics and market need to be included in any framework involved in making this decision.

Ultimately, the author has determined that, based on the existing research and the expert interviews conducted in the development of this paper, that there are several key factors considered in deliberating the “make” versus “buy” dilemma, but there is not an industry-wide



methodology. Furthermore, it seems that the success of any given methodology is entirely dependent on a given organization, and its ability to internalize and formalize that framework.

In regards to the 5 Cs, it does not appear that they are, in their entirety, currently used as the core considerations by hotel operators looking to decide whether to “make” or “buy” their food and beverage operations. However, based on the research conducted by the author, it does appear that they offer a solid framework for any operator in need of a rational approach to resolving this difficult and important dilemma. In the absence of a prevailing framework or process to resolve this crucial dilemma, the author proposes that the 5 Cs provides an adequate and helpful framework to systematically and rationally analyze the “make” or “buy” dilemma.

Hotel organizations will continue to have to decide whether or not to “make” or “buy” their food and beverage operations. As restaurant groups and chefs continue to establish more and more competency in operating third party outlets in upper upscale, luxury, and boutique hotels, anecdotal evidence would point towards the “buy” scenario continuing to increase in popularity. However, as food and beverage continues to develop as an important component of an articulate, contemporary, and successful hotel brand, hotel groups are sure to continue to increase their competency in creating and operating food and beverage outlets. The 5 Cs should serve as the baseline for the ongoing development of internal methodologies to make these important decisions.

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